



## **Audit Committee**

**Date**        **Thursday 31 May 2012**  
**Time**        **10.00 am**  
**Venue**       **Committee Room 1A - County Hall, Durham**

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### **Business**

#### **Part A**

**Items during which the Press and Public are welcome to attend.  
Members of the Public can ask questions with the Chairman's  
agreement.**

1. Minutes of the meeting held on 22 March 2012 (Pages 1 - 8)
2. Declarations of interest
3. Strategic Risk Management Progress Report for the Quarter period January to March 2012 - Report of Corporate Director, Resources (Pages 9 - 22)
4. The Work of Corporate Risk Management April 2011 - March 2012 - Report of Corporate Director, Resources (Pages 23 - 30)
5. Internal Audit Progress Report Quarter Ended 31 March 2012 - Report of Manager of Internal Audit and Risk (Pages 31 - 38)
6. External Audit - Durham County Council Audit Plan 2011/12 - Report of External Auditor (Pages 39 - 60)
7. Update on Duplicate Payments - Report of Corporate Director, Resources (Pages 61 - 64)
8. External Audit - Interim Governance Report Pension Fund - Report of External Auditor (Pages 65 - 74)
9. External Audit - Interim Governance Report Durham County Council - Report of External Auditor (Pages 75 - 110)
10. Compliance with International Auditing Standards - Report of Manager of Internal Audit and Risk (Pages 111 - 128)
11. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration.
12. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information.

## Part B

### **Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)**

13. Internal Audit Progress Report Quarter Ended 31 March 2012 - Report of Manager of Internal Audit and Risk (Pages 129 - 156)
14. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration.

**Colette Longbottom**  
Head of Legal and Democratic Services

County Hall  
Durham  
23 May 2012

To: **The Members of the Audit Committee**

Councillor E Bell (Chairman)  
Councillor O Temple (Vice-Chairman)

Councillors C Carr, B Harrison, M Hodgson, L Marshall, B Myers,  
R Ord and D J Southwell

**Co-opted Members:**

T Hoban and K Larkin-Bramley

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**Contact: Ros Layfield**

**Tel: 0191 383 4205**

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**DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 22 March 2012 at 10.00 am**

**Present:**

**Councillor E Bell (Chairman)**

**Members of the Committee:**

Councillors C Carr, M Hodgson, L Marshall, B Myers, R Ord, D J Southwell and O Temple

**Co-opted Members:**

Mr T Hoban and Ms K Larkin-Bramley

Attendance by External Auditor- C Waddell, and C Banks

**1 Minutes**

The minutes of the meeting held on 16 February 2012 were agreed as a correct record and signed by the Chairman.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes). Several items on the Plan were considered later in the meeting, the position with others was provided and dates were set when these would be reported back to Committee. The Plan would be updated accordingly.

**2 Declarations of Interest**

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board, Fire Authority and Police Authority. Together with other declarations from Ms Larkin-Bramley, a declaration be provided that she is a lecturer at New College Durham.

**3 Budget and Medium Financial Plan Setting Process**

The Head of Corporate Finance provided a briefing to members on the Council's budget and financial procedure rules, and how they are followed in the

development of the budget and medium term financial plan setting process (for copy of briefing paper see file of Minutes).

Members welcomed the briefing and the detailed information provided, and following clarification to their questions, assurance was received on the processes and procedures in place.

Members requested that they be provided with the timetable for setting the MTFP, Council Plan and Service delivery for the following year once it was set.

#### **4 Action Plan for Corporate Governance Improvements**

The Committee considered a report of the Corporate Director, Resources that provided an update on progress in implementing the agreed governance action plan, which highlights areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements (for copy see file of Minutes).

##### **Resolved**

That the report provided assurance that action is being taken to address areas of improvement in corporate governance arrangements, as set out in the action plan.

#### **5 Consolidated Action Plan- 2010/11 Audit of Accounts**

The Committee noted a report of the Corporate Director, Resources that presented an updated action plan which consolidated all agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2010/11 Interim and Final Governance Reports (for copy see file of Minutes).

In relation to recommendation 10 of the General Ledger, it was reported that there had been further slippage due to difficulties with the journal, however these should be input into the ledger in the next couple of days, and not 16 March, as identified in the report.

Clarification was provided in respect of final recommendation 2, which was to ensure quality control on the internal review processes are strengthened as part of the closedown procedures for 2011/12, and that weekly monitoring of this would be undertaken.

##### **Resolved**

That the action plan, to gain assurance that control weaknesses identified through the final account audit process are being appropriately addressed, be noted, and that significant improvement had been made since the previous year.

## **6 Certification of Claims and Returns- Annual Report**

The Committee received the annual report of the External Auditor on the outcomes of the Council's 2010/11 claims and returns (for copy see file of Minutes).

The Audit Manager advised of their work in order to provide assurance to grant paying bodies that claims for grant and subsidies are made properly and that information on financial returns is reliable. She provided further information on the outstanding claims and of the robust financial control measures in place.

### **Resolved**

That the report be noted.

## **7 Audit Plan for 2011/ 12 Accounts**

The Committee received a report of the External Auditor on the audit plan for 2011/12 Accounts for the DCC Pension Fund (for copy see file of Minutes). The audit plan for DCC, which was referred to, would be considered at the next meeting.

### **Resolved**

That the audit plan for DCC Pension Fund 2011/12 be noted.

## **8 Changes to the Code of Practice for Local Authority Accounting in the UK for 2011/12**

The Committee noted a report of the Corporate Director, Resources that provided members with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK, which will apply to 2011/12 accounts (for copy see file of Minutes).

It was pointed out that this would bring about changes to the recording of the heritage assets owned by the Authority, and that there would need to more robust arrangements in place for the completion of the related party transaction forms by members of the Authority.

### **Resolved**

That the accounting changes be noted.

## **9 Update on Single Asset Register**

The Committee received an update of the Corporate Director, Resources on the work around the single asset register. Phase 1 was now complete. A report on phase 2 would be brought to a future meeting.

Councillor R Ord advised that he still had concerns on the completeness of the register for the Derwentside area, which he had referred to at the last meeting, and that although he had met with officers from the Asset Management Section he had some unanswered questions. The Corporate Director, Resources agreed to refer the matter back to the appropriate officers.

### **Resolved**

The Committee required further assurance on the policies and procedures in place, as it appeared there was a fragmented approach to the valuation and disposal of land. A report would be brought to the next meeting.

## **10 Deferred Internal Audit Work**

The Manager of Internal Audit and Risk updated members on the position on the internal audit work which had been deferred and reported at the last meeting. The Chair and Vice Chair had met with officers of the service, and an explanation was provided on the reasons for the deferment, and that assurance had been received that this work would commence in six months time.

Councillor Southwell advised that he still had concerns at the deferment of work.

The Corporate Director, Resources, would speak to the officers of the service in order to gain personal assurance.

The Chairman agreed that in order to keep members informed the next two items of business could be reported.

## **11 Icelandic Banks**

The Committee received an update from the Corporate Director, Resources on the position with the recovery of funds following the collapse of the Icelandic banks. To date £4.775m had been recovered, and it was expected that most of the £7m owed would be received.

## **12 Audit Commission**

The External Auditor updated the Committee on the position with the Audit Commission, and the future changes for the Authority's external auditor.

## **13 Exclusion of the Public**

That under Section 100 (A) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it

involves the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the said Act.

#### **14 Minutes**

The minutes of the meeting held on 16 February 2012 were agreed as a correct record and signed by the Chairman.

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Action Plan- Work of Audit Committee- Part A- 31 May 2012

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1.	6.1.11 28.7.11 5.1.12	8	Bank Account Rationalisation/ Reconciliation	Six monthly update reports be provided	Corporate Director, Resources	30.7.12
2.	29.9.11 10.11.11 5.1.12 16.2.12 22.3.12	4	Single Asset Register	Progress report on phase 2 to be brought to a future meeting , and a report to provide assurance on the policies and procedures on the valuation and disposal of land, be brought to the next meeting	Gerald Darby Valuation and disposal of land  Phase 2 Single Asset register	28/6/12  27/9/12
3.	29.9.11	7	Duplicate Payments	Up date report once next stage of review of potential duplicates complete	Bev White	31.5.12  Item 7 on Agenda
4.	29.9.11 31.10.11 22.3.12	10	Icelandic banks	Update - as and when necessary	Corporate Director, Resources	TBA
5.	5.1.12 16.2.12 22.3.12	7	Consolidated Action Plan – Final Accounts	Update to be brought as a standard item to every meeting – report format to be amended to clearly show progress and status of each recommendation – using RAG rating.	Jeff Garfoot	31.5.12  Superseded by Interim Governance Report 2011/12 – Agenda Item 9 on Agenda
6.	5.1.12	9	Annual Audit Letter	Report to be brought to Committee outlining changes and implications of changes to HRA Funding	Jeff Garfoot	TBA
7.	16.2.12	6	F M Standards	Once Section 151 Officer had completed the process, further details be brought back to Committee	Corporate Director, Resources	TBA
8.	22.3.12	3	Budget and MTFP setting process	Timetable for next financial year be provided to members, once set.	Jeff Garfoot	TBA
9.	22.3.12	7	Annual Plan for 2011/12 Accounts	Plan for DCC considered at next meeting	Cameron Waddell	31.5.12 Item 6 on the Agenda

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**Audit Committee****31 May 2012**

**Strategic Risk Management  
Progress Report for the Quarter period  
January to March 2012**

**Report of Corporate Management Team**

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**Don McLure, Corporate Director Resources**

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**Purpose of the Report**

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period January to March 2012.

**Background**

2. Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is detailed in Appendix 2.
3. Throughout this report, both in the summary and the Appendices, all risks are reported as 'Net Risk' (after putting in place mitigating controls to gross risk), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

**Current status of the risks to the Council**

4. As at 31st March 2012, there were 54 strategic risks, a decrease of 6 from the previous period end at 31 December 2011. In summary, the key risks to the Council are:
  - Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses;
  - Failure to identify and effectively regulate Contaminated Land;
  - Recent specialist report states that Seaham North Pier is beyond the life of the structure and could be breached;
  - The Council may be liable to legal challenge if a single status agreement is not implemented in full;
  - The loss of Area Based Grant funding results in the County Durham Partnership failing to narrow inequality and deprivation gaps;
  - Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);

- Period of significant disruption to support Service Delivery during the unitisation of both the Finance and Human Resources & Organisational Development Services;
- Potential restitution of search fees going back to 2005;
- Industrial Action will adversely impact service delivery.

Progress on addressing these key risks is detailed in Appendix 3.

5. Appendix 4 of this report lists all of the Council's strategic risks as at 31 March 2012.
6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.
7. The following ongoing projects have been supported in various ways, including risk analysis through workshops and meetings, giving critical feedback on risk management documentation and procedures, attending project / board meetings and helping to maintain the risk register through challenge and identifying controls.
  - Integrated Service Delivery Project;
  - Digital Durham;
  - Academies;
  - New Lea Children's Home, Tanfield (New Build);
  - Community Buildings;
  - Potentially Violent Persons' Database;
  - Elections 2012 & 2013;
  - Pay and Conditions.

### **Recommendations and reasons**

Audit Committee to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

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**Contact: David Marshall Tel: 0191 3834311**

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## **Appendix 1: Implications**

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**Finance** - Addressing risk appropriately reduces the risk of financial loss.

**Staffing** - Staff training needs are addressed in the risk management training plan.

**Risk** – Not a key decision

**Equality and Diversity/Public Sector Equality Duty** - None

**Accommodation** - None

**Crime and disorder** - None

**Human rights** - None

**Consultation** - None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – None.

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## **Appendix 2: Background**

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A large amount of work is being carried out across the Council in shaping and developing our approach to risk management where the Cabinet and the Corporate Management Team have designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively.

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

An Audit Committee is in place, and one of its key roles is to monitor the effective development and operation of risk management and overall corporate governance in the Authority.

It is the responsibility of the Corporate Directors to develop and maintain the internal control framework and to ensure that their Service resources are properly applied in the manner and to the activities intended. Therefore, in this context, Heads of Service are responsible for identifying and managing the key risks which may impact on their respective Service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the Risk Owner (within the Service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team, and Chief Officers agree their Risk Register with the Cabinet Member responsible for their Portfolio Service.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

## Appendix 3: Strategic Risks

Risks are assessed at two levels:

- Gross Impact and Likelihood are based on an assessment of the risk without any controls in place;
- Net Impact and Likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 31 March 2012, there were 54 strategic risks, a decrease of 6 from the previous period end at 31 December 2011.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 31 March 2012. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 31 December 2011 is highlighted in brackets.

### Overall number of Strategic Risks as at 31 March 2012

Impact					
Critical	1 (1)	3 (2)	3 (2)		
Major		3 (3)	6 (7)	4 (5)	
Moderate		5 (6)	14 (17)	7 (7)	2 (3)
Minor			3 (4)	2 (2)	1 (1)
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In summary, key points to draw to your attention are:

#### 1 Beneficial outcomes

- The likelihood of the risk “Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation” occurring has reduced. This results from the Service implementing a number of mitigating actions to proactively raise awareness of the potential changes arising from welfare reforms, both to specific groups and among tenants as a whole. **(RED)**
- Implementing planned improvements has reduced the likelihood of risk “If the fundamental recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure

*of accounts and increased external audit activity/ further poor AGR's being issued" occurring. (RES)*

## **2 Significant New and Increased Risks**

Two new risks have been identified this quarter:

- *"Recent specialist report states that Seaham North Pier is beyond the life of the structure and could be breached". (NS)*
- *"Durham County Council fails to adequately plan for the transfer of public health responsibilities". (AWH)*

No risks have increased during this quarter.

## **3 Removed Risks**

The following eight risks have been **removed** from the register in this quarter following effective management of the risks by the Services, as all mitigating actions have been completed to reduce them to a level where management now consider existing controls to be adequate.

- *"Insufficient number of adequately skilled staff to maintain the expected level of services". This risk was closed as management believe that a robust process of having sound business cases to support any staffing reduction is now embedded as a business as usual activity. (RES)*
- *"Inability to manage markets for the delivery of Adult Social Care Services". This risk was closed as all mitigating actions have been completed. (AWH)*
- *"Inability to transform social care infrastructure and support systems in line with personalisation/transformation requirements". This risk was closed as all mitigating actions have been completed. (AWH)*
- *"Harmonised policies and action with regards to licensing and enforcement across all areas" has been closed as the majority of policies have been harmonised. (NS)*
- *The Neighbourhood Services risk of "Period of significant disruption to support Service Delivery during the unitisation of the HR & Finance functions" has been closed as it is now a crosscutting strategic risk. (NS)*
- *"Reduced future allocations of deprivation based grants to County resulting from changes to Council's new deprivation status" was closed as reduction in funding is already occurring. (RED)*
- *"The new Revenues and Benefits and attendant cash management and document flow systems will not be successfully implemented." The system was fully implemented at the beginning of December 2011. (RES)*
- *"Insufficient funds to cover the Council's self insured period for Employers Liability claims" has been closed as it is felt that there are sufficient reserves in the insurance account to cover any future settlements. Claims will be monitored at Service level and any significant increases will be reported to SMT. (RES)*

## **3 Emerging Risks**

Management believe there is a significant emerging risk that, as a result of the next Comprehensive Spending Review, there will be additional savings



required over and above those already considered in our Medium Term Financial Plan. This risk will be fully assessed at the next quarterly risk review.

#### 4 Key Risks

The risks shown in the tables below are considered the key risks to the Council. Where there have been changes to the risk assessment from the last quarter period end, these are highlighted in the column headed 'Direction of Travel'. The target for when the risk will be at an acceptable level, or where further improvements in mitigation are not possible, is highlighted in the column headed 'Anticipated date when risk will be at an acceptable level'.

<b>Impact</b>					
Critical			<b>Risks 1, 2 &amp; 3</b>		
Major				<b>Risks 4, 5, 6, &amp; 7</b>	
Moderate					<b>Risks 8 &amp; 9</b>
Minor					
Insignificant					
<b>Likelihood</b>	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: D McLure	Altogether Better Council	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	NS Risk Owner: J Waller	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	There is a permanent £100k revenue budget from 2012/13 in the Medium Term Financial Plan to mitigate this risk		Once the first phase of inspections (i.e. the top 10 sites) has been completed during 2012/13, this will provide a clearer position on the resource and funding needed to inspect the remaining 130 sites.
3	NS Risk Owner: T Collins	Altogether Wealthier	Recent specialist report states that Seaham North Pier is beyond the life of the structure and could be breached.	Critical	Possible	Funds allocated in the 2013-14 budget for the design for the repairs to the structure.	New Risk	
4	RES Risk Owner: D McLure	Altogether Better Council	The Council may be liable to legal challenge if a single status agreement is not implemented in full.	Major	Probable	Letters will be sent to staff in May 2012 advising how the proposals would affect them. Council approval will be obtained prior to commencing formal negotiations, involving Trade Unions. Outcomes will be implemented (subject to negotiations) by the end of 2012.		The project to bring this risk to an acceptable level will be completed by December 2012.
5	RED Risk Owner: L O'Donnell	Altogether Wealthier	The loss of Area Based Grant funding results in the CDP failing to narrow inequality and deprivation gaps	Major	Probable	Development and implementation of localised performance measurement of outcomes.		An action plan for CDP is in place. This will remain a significant risk for at least the next 4 years.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
6	RES Risk Owner: D McLure	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)	Major	Probable	The cost of any clawback will be met from the Insurance Reserve		Supreme Court ruling has been made. Currently waiting response from MMI before considering the options going forward
7	RES Risk Owner: D McLure	Altogether Better Council	Period of significant disruption to support Service Delivery during the unitisation of the Finance and HR & OD Services.	Major	Probable	A Transition Plan for the restructures is in place and is being monitored.		
8	RES Risk Owner: C Long-bottom	Altogether Better Council	Potential restitution of search fees going back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Dependent upon the outcome of the negotiations/ litigation currently being defended by lawyers instructed in group litigation
9	RES Risk Owner: K Jobson	Altogether Better Council	Industrial Action will adversely impact service delivery	Moderate	Highly Probable	Arrangements in place to ensure continuity of essential services during industrial action.		



## **Appendix 4: List of all Strategic Risks (per Corporate Theme)**

Based on the **Net** risk assessment as at 31 March 2012, the following tables highlight the risks for each Corporate Theme.

### **Corporate Theme – Altogether Wealthier**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
1	NS	Recent specialist report states that Seaham North Pier is beyond the life of the structure and could be breached.
2	RED	The loss of Area Based Grant funding results in the CDP failing to narrow inequality and deprivation gaps
3	RED	Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.
4	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
5	RED	East Durham Homes additional Government funding is not forthcoming due to Government cut backs.

### **Corporate Theme – Altogether Better for Children and Young People**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
6	CYPS	Failure to meet escalating costs of external and high-cost placements effectively
7	CYPS	Children/families experience lack of interface between Adult/Children's Services as a result of failure to work closely together
8	CYPS	Failure to deliver the restructured BSF programme on time and with minimal service disruption
9	RED	Employment Services for young people (18-24 year olds) are unco-ordinated between service groups.
10	CYPS	Integrated Service Delivery benefits will not be realised if contractors fail to deliver the ICT infrastructure on time

### **Corporate Theme – Altogether Healthier**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
11	AWH	Potential financial, operational, and reputational risks arising from proposed NHS Reforms
12	AWH	Durham County Council fails to adequately plan for the transfer of public health responsibilities
13	AWH	Increased cost to the authority from revision to "Ordinary residence" guidance
14	AWH	Management and administration of service users medications

### **Corporate Theme – Altogether Greener**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
15	NS	Failure to identify and effectively regulate Contaminated Land
16	NS	Failure to effectively deliver the proposed Waste Management Solution.

### Corporate Theme – Altogether Safer

Ref	Service	Risk
17	RED	Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council
18	AWH	A service failure of Safeguarding leads to death or serious harm to a service user.
19	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue) - CYPS
20	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
21	NS	Damage to Highways assets as a result of a severe weather event.
22	AWH	Risk of injury to gypsies, travellers and staff due to site-related hazards
23	AWH	Violence and Aggression Staff
24	AWH	Unauthorised encampment
25	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

### Corporate Theme – Altogether Better Council

Ref	Service	Risk
26	RES	The Council may be liable to legal challenge if a single status agreement is not implemented in full.
27	RES	Industrial Action will adversely impact service delivery
28	RES	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
29	RES	Potential restitution of search fees going back to 2005
30	RES	Period of significant disruption to support Service Delivery during the unitisation of the Finance and HR & OD Services.
31	RES	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
32	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
33	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
34	RES	Collection Fund and Debtors collection rates do not reach target set for 2011/12
35	RES	If the fundamental recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure of accounts and increased external audit activity/ further poor AGR's being issued
36	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
37	RES	Delays in processing both new and changes to benefit claims.
38	RES	If fuel and energy costs continue to rise it will have major financial implications for the Council and wider impact on community
39	NS	Building Services could see a loss of business if the Academies do not use Council services and/ or opt out of the SLA to procure outside agencies to carry out compliance, building and maintenance/ grounds maintenance works
40	NS	Failure to effectively support events organised by the Council or taking place on Council land.

Ref	Service	Risk
41	RES	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.
42	NS	The Alternate Weekly Collection project is not delivered to programme.
43	NS	Limited knowledge of DEBS live system by some budget holders could adversely impact on service delivery and performance in NS
44	RES	Major Interruption to IT Service Delivery
45	ACE	The data used to produce performance information is of insufficient quality to ensure reliability for decision making purposes
46	RES	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
47	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
48	AWH	Work Related Stress - STAFF
49	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS
50	NS	The performance of building services does not improve to make them more competitive.
51	ACE	Failure to co-ordinate infrastructure support to the V&CS, leading to a failure to channel resources to those in greatest need.
52	ACE	Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues
53	ACE	Failure to consider equality implications of decisions on communities leading to discrimination/not promoting equality of opportunities
54	CYPS	Unpredictable, volatile financial demands leading to MTFP targets and cash limits being breached

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## Audit Committee

31 May 2012

### The Work of Corporate Risk Management April 2011 – March 2012



## Report of Corporate Management Team

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**Don McLure, Corporate Director, Resources**

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### Purpose of the Report

1. The purpose of this report is to demonstrate the effectiveness of risk management across the Council during the year April 2011 to March 2012, focusing in particular on the management of risks by the Services, and the effectiveness of the Corporate Risk Management Group (CRMG) in supporting Services in their management of risk. It also provides evidence to support the Annual Governance Statement.

### Background

2. Each Corporate Director has a designated member of staff (the Service Risk Manager) to lead on risk management at a Service Grouping level. In addition, the Council has designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). Risks are assessed and managed at both a service and corporate level.

### Risk Management Strategy and Policy

3. CRMG have undertaken their annual review of the Council's Risk Management Strategy and Policy, and implemented revisions as required for 2012/ 13.

### Changes in number of risks from April 2011

4. As at 31 March 2012, there were 54 strategic risks, a decrease of 25 from the previous year end at 31 March 2011.

### Summary of performance of risk management in 2011/12

5. These are covered in the appendices to this report:
  - Appendix 2 highlights improvements to the risk management framework in 2011/ 12.
  - Appendix 3 highlights planned improvements to the risk management framework in 2012/ 13.
  - Appendix 4 highlights the performance of risk management during the year.

## **Recommendation**

Audit Committee to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework.

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**Contact: David Marshall Tel: 0191 3834311**

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## **Appendix 1: Implications**

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**Finance** - Addressing risk appropriately reduces the risk of financial loss.

**Staffing** - Staff training needs are addressed in the risk management training plan.

**Risk** – Not a key decision

**Equality and Diversity/ Public Sector Equality Duty** - None

**Accommodation** - None

**Crime and disorder** - None

**Human rights** - None

**Consultation** - None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – None.

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## **Appendix 2: Improvements to the Risk Management Framework in 2011/ 12**

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The main improvements to the risk management framework in 2011/ 12 were:

- Improved the level of support and advice on managing risk in significant projects;
- Developed and piloted a process for risk management of bids for external funding;
- Formalised the approach for managing risk in the Area Action Partnerships;
- Improved risk management links into the budget setting cycle;
- Streamlined the formal reporting process to ensure the information Members receive is up-to-date;
- Delivered training courses to Tier 4 and Tier 5 officers.

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## **Appendix 3: Planned Improvements to the Risk Management Framework in 2012/ 13**

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The longer term aim has always been to embed risk management within Services to a degree where they identify and manage their own risks, and gain assurance over their governance arrangements, with minimal support from the corporate centre. Therefore, the workload of corporate risk management will increasingly focus more on providing risk management support in other parts of the Council's operations, such as projects, procurements, funding bids and supply chains, rather than support to Services on their strategic risks.

Clearly, this will require a culture of service managers taking greater responsibility and accountability for managing risk and controls, and providing assurance, through the implementation of control risk self assessment (CRSA) at an operational level. Internal Audit staff will work with Service managers to develop CRSA through their annual programmes of assurance reviews.

In addition, the Corporate Insurance Function transferred from Strategic Finance to the Internal Audit and Risk Management Service with effect from 1<sup>st</sup> April 2012. Insurance provision is a key mitigating control action to many operational risks and consequently by bringing the Insurance and Risk Management functions together as part of the same team there can be better co-ordination and evaluation of claims handling and risk management that may in the longer term identify opportunities for efficiencies. In the short term, resources will be provided to fully integrate the insurance service within the Risk and Governance Team.

With this in mind, the key improvements to risk management that we propose to implement in 2012/ 13 include:

- Develop a risk management training plan for Members;
- Develop an external facing website for risk management;
- Support the Voluntary and Community sector and Schools to establish effective risk management arrangements;
- Work with corporate procurement and the Civil Contingencies Unit to develop a process for risk assessing critical Supply Chains;
- Further develop computer-based training of risk management.

Progress on implementing these improvements will be monitored by the CRMG.

## **Appendix 4: Performance of Risk Management during 2011/ 12**

CRMG manage a framework to review the effectiveness and performance of risk management. This includes self-assessment, highlighting successful outcomes achieved from managing individual risks, and performance measures for risk management, which have been identified to help us demonstrate whether risk management is supporting the Council, and its partnerships, in delivering successful outcomes. The following table reports on performance for 2011/ 12.

	<b>Objective: To demonstrate that risks are being effectively managed</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target</b>	<b>Performance in 2011/12</b>
All risks are reviewed on a continual cycle	Service Risk Review completed each quarter	100%	100%
To provide informed decision making	Key decisions reports with a risk assessment	100%	100%
The delivery of Council services via Significant partnerships is effectively risk managed	Significant partnerships with joint risk management arrangements in place within 6 months of being established	90%	Over 80% of AAP risk registers completed
	<b>Objective: To ensure that Officers and Members are appropriately skilled in risk management</b>		
Appropriate staff are adequately skilled in risk management	Tier 4 managers attending risk management training course	75%	Training delivered to 92 Tier 4 and 5 officers
Appropriate staff are adequately skilled in risk management	Tier 5 managers attending risk management training course	50%	
Members are adequately skilled in risk management	New Members attending risk management training course within 6 months of being elected (for co-opted members, within 6 months of being appointed)	75%	Working with Member risk champion to address this

<b>Objective: To ensure that the risk management service is effective and adding value</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target</b>	<b>Performance in 2011/12</b>
Contributing to effective corporate governance	Meeting CIPFA governance principles and objectives on risk management	To confirm in the annual review of the effectiveness of corporate governance	Confirmed in the annual review of corporate governance currently underway
Planned improvements in risk management are being implemented	Tasks in Risk Management Improvement plan are achieved within target date	80%	Over 85% of planned actions either implemented within target, or rescheduled with formal approval

The following table highlights examples of how effective management of risks by Service management has contributed to Services improving performance and decision-making across the Council:

<b>Objective: To demonstrate that risks are being effectively managed and adding value</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Evidence of successful outcomes from risk management</b>
<p>Successfully delivered projects</p> <p>Innovative decisions that were risk managed</p> <p>Reputation protected</p> <p>Good governance maintained</p> <p>Financial return for the Council</p>	<p>Gather information on risk management successes, and beneficial outcomes the Council achieve in managing risks</p>	<ul style="list-style-type: none"> <li>➤ The successful delivery of a programme of efficiency savings totalling £66m in 2011/12.</li> <li>➤ The successful transfer of Agresso systems to DeBS mitigated the risk of delays in implementing the FMS Migration Project.</li> <li>➤ All Phase 3 Children’s Centre Capital Build projects were successfully completed.</li> <li>➤ Following the winding-up of a major residential care company, all homes were either closed or transferred to new owners under a transition plan which ensured continued residential care for all residents affected.</li> <li>➤ Further improvements to the Events Management process are enabling the risk of failing to effectively support events organised by the Council or taking place on Council land to be managed at an acceptable level.</li> <li>➤ The risk of salt supplies running out during a severe weather event was reduced due to the substantial control measures now in place.</li> <li>➤ The implementation of a new single ICT system and the development of training programmes has mitigated to an acceptable level the risk of “Failure to deliver an effective intervention regime, leading to adverse impact on public health”.</li> <li>➤ Continuous monitoring of the corporate approach to managing procurement across the Council has mitigated the risk of it not being consistently applied.</li> <li>➤ The introduction of a computerised committee management system has managed the risk the Council losing challenges because of unlawful calling of meetings.</li> <li>➤ The risk of ‘Failing to meet escalating costs of external and high-cost placements’ has been effectively managed due to the close monitoring of the plan to implement a new contract for the placement of children and young people with independent fostering providers.</li> <li>➤ Negotiations between the Council and the two main bus operators (accounting for 90% of the cost to the Authority) delivered a £0.5 million saving to the MTFP and successfully mitigated the risk of increases in concessionary fares.</li> </ul>



**Audit Committee**

**31<sup>st</sup> May 2012**

**Internal Audit Progress Report  
Quarter Ended 31<sup>st</sup> March 2012**



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**Report of Manager of Internal Audit & Risk**

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**PURPOSE OF THE REPORT**

- 1 The purpose of this report is to inform Members of work carried out by Internal Audit during the period April to March 2012.
- 2 The report aims to:
  - Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit
  - Advise you of significant issues where controls need to improve to effectively manage risks
  - Advise you of any other types of audit work carried out such as grant certification or consultancy reviews where an assurance on the control environment may not be applicable
  - Advise you of amendments to planned work
  - Advise you of unplanned work carried out or to be carried out
  - Track progress on the response to audit reports and the implementation of agreed audit recommendations
  - Advise you of any changes to the audit process
  - Provide an update on our performance indicators comparing actual performance against planned where measurable at this stage

**BACKGROUND**

- 3 Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
- 4 To help improve the audit planning process, a revision to the annual audit planning cycle was approved by Audit Committee in February 2011. The audit planning year now covers the period July to June to allow audit plans to be developed following the approval of service plans and the MTFP.

- 5 As a consequence of this change, an interim audit plan covering the period April to June 2011 was approved by Audit Committee in March 2011.
- 6 A 5 year strategic audit plan together with the annual plan for July to June 2012 was approved by Corporate Management Team (CMT) and Audit Committee on the 8th June and the 30th June 2011 respectively.
- 7 The interim plan and work programmed for the first 3 quarters of the annual plan determine the audit programme of work for the financial year 2011/12 for performance monitoring and reporting purposes to inform the annual audit opinion.
- 8 In accordance with our Internal Audit Charter, we will give an assurance opinion on the effectiveness of internal controls each time we complete an assurance review. Details of how our assurance opinions are derived are given in Appendix 3.
- 9 It is managers' responsibility to ensure that effective controls operate within their service areas. However we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner.
- 10 The method of audit follow up will vary according to the priority of recommendation.
- 11 Audit recommendations are allocated a priority ranking reflecting the significance of the audit findings to which they relate. Details of how we define the significance of audit findings are also given in Appendix 2.

### **PROGRESS AGAINST PLANNED WORK**

- 12 Details of the status of each audit as at 31<sup>st</sup> March 2012 is given below:
  - 3 of the 11 counter fraud reviews are complete and a further 5 are in progress. One has been deferred.
  - 62 out of 107 planned assurances due to be carried out this financial year are complete. A further 33 are in progress.
  - 15 out 32 planned advice and consultancy type reviews are complete and a further 13 are in progress.
  - 95 unplanned reviews have been added to the plan to address new or emerging risks. 69 of these relate to investigations.
  - All planned grant certification work is complete.
- 13 A number of unplanned audits have also been carried out this quarter to address new or emerging risks.

### **RESPONSE TO AGREED AUDIT RECOMMENDATIONS**

- 14 To provide independent assurance that adequate progress is made in the implementation of agreed recommendations at the appropriate service operational level, all high and medium recommendations contained within

actions plans within individual audit reports are followed up by internal audit. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to a nominated representative to assist management monitoring processes.

## **PERFORMANCE INDICATORS**

- 15 A summary of our actual performance compared to agreed target performance indicators is given in Appendix 3.

62 out of 107 planned assurance reviews initially scheduled to be complete by 31<sup>st</sup> March have been undertaken, (58%). However, 13 reviews expected to be undertaken in this period have been cancelled or deferred reducing the expected total to 94 (66%). In addition, 33 reviews were in progress as at 31<sup>st</sup> March. On average audits in progress are 53% complete – equivalent to a further 18 audits. Consequently, when work in progress is taken into account performance is increased to 85%. (75% is no adjustment for work deferred or cancelled).

- 16 Performance in delivering the approved audit plan covering the planning year July 2011 to June 2012 has also been calculated to demonstrate performance against the approved plan as at 31<sup>st</sup> March 2012. Actual performance is 60% including work in progress. Savings from current temporary vacancies are being utilised to bring in additional resource to address the slippage during the current quarter.

## **RECOMMENDATIONS**

- 17 Members are asked to note the progress made on delivering the internal audit plan for 2011/12 to gain assurance on the adequacy and effectiveness of the Council's internal control environment.

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**Contact: Avril Wallage Tel: 0191 383 3537**

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**Appendix 1: Implications**

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**Finance**

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

**Staffing**

None

**Risk**

This report requires no decision and so a risk assessment has not been carried out

**Equality and Diversity**

None

**Accommodation**

None

**Crime and disorder**

None

**Human rights**

None

**Consultation**

None

**Procurement**

None

**Disability Discrimination Act**

None

**Legal Implications**

None

**Findings**

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<p><b>A finding that could have a:</b></p> <p><b>Critical</b> impact on operational performance (Significant disruption to service delivery)</p> <p><b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget)</p> <p><b>Critical</b> breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)</p> <p><b>Critical</b> impact on the reputation of the Council (Significant reputational damage with partners/central government and/or significant number of complaints from service users)</p> <p><b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)</p>
<b>Major</b>	<p><b>A finding that could have a:</b></p> <p><b>Major</b> impact on operational performance (Disruption to service delivery)</p> <p><b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget)</p> <p><b>Major</b> breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)</p> <p><b>Major</b> impact on the reputation of the service within the Council and/or complaints from service users</p>
<b>Minor</b>	<p><b>A finding that could have a:</b></p> <p><b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)</p> <p><b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget)</p> <p><b>Minor</b> breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary or financial statement impact or reputation of the service)</p>

<b>Likelihood</b>	<b>Assessment criteria</b>
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

**Overall Finding Rating**

This grid is used to determine the overall finding rating.

<b>LIKELIHOOD</b>			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	L
	Minor	Major	Critical
		<b>IMPACT</b>	

**Priority of our recommendations**

We define the priority of our recommendations arising from each overall finding as follows;

<b>High</b>	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to <b>significant risk</b> from weaknesses in critical or key controls
<b>Medium</b>	Action required to ensure that the service/system/process objectives are not exposed to <b>major risk</b> from weaknesses in controls
<b>Low</b>	Action required to ensure that the service/system/process objectives is not exposed to <b>minor risk</b> from weaknesses in controls
<b>Advisory</b>	Action that is considered desirable to address minor weaknesses in control that if implemented may not reduce the impact or likelihood or a risk occurring but should result in enhanced control or better value for money.

**Overall Assurance Opinion**

Based upon the ratings of findings and recommendations arising during the audit as summarised in risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

<b>Full Assurance</b>	There is a sound system of control designed to achieve the process/system/service objectives and manage the risks to achieving those objectives. (No H, M or L findings/recommendations)
<b>Substantial Assurance</b>	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk. (No H or M findings/recommendations)
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. (No H findings/recommendations)
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.(H findings/recommendations)
<b>No Assurance</b>	Control is weak as controls in numerous key areas are ineffective leaving the system open to significant risk of error or abuse

## Performance Indicators for 2011/12

<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>			
<b>Efficiency</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>As at 31/3/12 Actual</b>
<b>KPI</b>			
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Quarterly)	Financial year end 66% - 85% with WIP. Planning year end 60% with WIP. ( Includes adjustment of deferred/cancelled reviews)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	87% 18 days on average
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	91% 5 days on average
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	88%
<b>Quality</b>			
	<b>Objective: To ensure that the service is effective and adding value</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	98%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	96%
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	Overall average score 4.47 47%
<b>Cost</b>			
	<b>Objective: To ensure that the service is cost effective</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	2010/11 – No 2011/12 - Yes

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# Audit plan

Durham County Council

Audit 2011/12



# Contents

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Introduction.....	3
Accounting statements and Whole of Government Accounts .....	4
Value for money.....	10
Key milestones and deadlines .....	11
The audit team .....	12
Independence and quality .....	13
Fees .....	14
Appendix 1 – Independence and objectivity .....	16
Appendix 2 – Basis for fee.....	18
Appendix 3 – Glossary .....	19

# Introduction

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**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee (as those charged with governance), of their responsibilities.

# Accounting statements and Whole of Government Accounts

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**I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **Materiality**

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## **Identifying audit risks**

I need to understand the Council to identify any risk of material misstatement (whether because of fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

## **Identification of significant risks**

I have considered the significant risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: Significant risks

Risk	Audit response
<p>CIVICA</p> <p>The Council introduced a new Revenues and Benefits system in 2011/12. Migration from the seven former district systems to CIVICA increases the risk of material errors in housing and council tax benefits, council tax and business rates.</p>	<p>I will review and test arrangements in place to ensure that closing balances have been successfully transferred as opening balances in the new system.</p>
<p>EBS Oracle</p> <p>The Council introduced a new Accounts Receivable system in 2011/12. Migration from the seven former district systems to EBS Oracle increases the risk of material errors in income recognition in the accounting statements.</p>	<p>I will review and test arrangements in place to ensure that closing balances have been successfully transferred as opening balances in the new system.</p>
<p>Property, Plant and Equipment (PPE)</p> <p>The Council is introducing a new Single Asset register in 2011/12. Migration from the seven former district asset registers increases the risk of material errors in the property, plant and equipment balance in the accounting statements.</p>	<p>I will review and test arrangements in place to ensure that closing balances have been successfully transferred as opening balances in the new system.</p>
<p>Academies</p> <p>The Council has 16 schools transferring to Academy status in 2011/12. The Council may materially misstate property, plant and equipment in the balance sheet.</p>	<p>I will review Council consideration of IAS 16 recognition criteria and consistency with the accounting policy.</p> <p>I will also test detailed accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.</p>

Risk	Audit response
<p><b>HRA Reform</b></p> <p>The government plans to reform local Council housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to central government on 28 March 2012 that will impact on the HRA debt of the Council. Because of the complexity, scale and timing of the HRA reform, there is a risk of material errors in the accounting statements.</p>	<p>I will review management's oversight of HRA reforms and transactions required. I will also test detailed settlement payments and the £55 million extra PWLB debt paid on 28th March.</p>
<p><b>Group Accounts</b></p> <p>During 2011/12 there have been changes to the Council's group interests in Premier Waste. Wrong inclusion or omission of group accounts is a risk.</p>	<p>I will review management's assessment of the need for group accounts.</p>
<p><b>IAS19</b></p> <p>The Council must include pension assets at fair value using the revaluation method as described in IAS 19. Pension assets can be subject to significant volatility and are valued each year. The disclosures in the accounting statements involve the use of the scheme Actuary, as the Council's expert, and include significant estimates.</p>	<p>I will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary.</p> <p>I will assess the controls over the estimation uncertainties.</p> <p>I will also agree the pension figures from the Actuary's report to the accounting statements and check the disclosures are consistent with requirements.</p>

## Identification of specific risks

I have considered the specific risks that are relevant to the audit of the accounting statements and have set these out below.

Table 2: **Specific risks**

Risk	Audit response
<p>Journal authorisation</p> <p>Officers do not review and authorise journals. This may result in the non-detection of material errors.</p>	<p>I will test material year-end journals and carry out detailed tests of income and expenditure.</p>
<p>Related party transactions</p> <p>There have been problems in previous years in getting written declarations promptly with the risk of omissions from the accounting statements.</p>	<p>I will review management controls in place for identifying and declaring related party transactions and undertake substantive testing once I receive the accounts.</p>
<p>Revenues and Benefits Reconciliations</p> <p>The Council implemented the new revenues and benefits system (CIVICA) in 2011. Officers should ensure that reconciliations to the general ledger and relevant sub-systems (including housing and council tax benefits, Council Tax, NDR and Housing Rents) are completed.</p>	<p>I will review all revenues and benefits reconciliations.</p>
<p>Job Evaluation and Equal Pay</p> <p>The Council has set aside amounts for equal pay and job evaluation. The risk is the accounting treatment will not be correct.</p>	<p>I will review and test transactions for job evaluation and equal pay including any potential omissions.</p>
<p>Heritage Assets</p> <p>New Code requirements will result in changes to accounting policy and may require disclosures in the accounting statements.</p>	<p>I will review the process for identifying heritage assets for completeness and test if material.</p>

## Group accounts

As noted in significant risks above, officers are assessing whether group accounts are required in 2011/12. We will review this when complete.

### Testing strategy

My audit involves:

- review and reperformance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and reperformance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 3: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Financial Systems	General ledger Payroll SIMS SSID Significant Risks	None	None	Early work on: <ul style="list-style-type: none"> <li>■ income and expenditure</li> <li>■ Bank Reconciliations</li> <li>■ investments and loans;</li> <li>■ Payroll; and</li> <li>■ significant risks.</li> </ul>



	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	Financial Systems		<ul style="list-style-type: none"> <li>Pensions assets and liabilities – Audit Commission</li> <li>Auditors of group interests – if group accounts prepared.</li> </ul>	<ul style="list-style-type: none"> <li>Pensions liabilities and assets – Aon Hewitt and our own consulting actuary</li> <li>Valuation of property, plant and equipment – in-house valuer and Gerald Eve.</li> <li>Financial Instruments – Sector.</li> </ul>	<ul style="list-style-type: none"> <li>All material accounts balances and amounts</li> <li>Year-end feeder system reconciliations</li> </ul>

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

### Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

# Value for money

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## **I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

### **Identification of significant risks**

I have considered the risks that are relevant to my value for money conclusion and I have not identified any significant risks.

I will plan a programme of VFM audit work based on my risk assessment, focusing my work in the following areas.

- The refreshed Medium Term Financial Plan (including quarterly finance and monitoring reports).
- The monitoring and action taken to achieve the planned savings and efficiencies and contributing to continued VFM in the Council's use of its resources.

# Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February – June 2012	Interim Annual Governance Report
Opinion: receipt of accounts and supporting working papers	By 30 June 2012	
Opinion: substantive testing	July – September 2012	Final Accounts report
Progress meetings	As and when required	
Value for money: Securing Financial Resilience and Economy, Efficiency and Effectiveness	Ongoing monitoring	
Present Annual Governance Report at the Audit Committee	27 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	27 September 2012	Auditor's report
WGA opinion	27 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

# The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Cameron Waddell District Auditor	<a href="mailto:c-waddell@audit-commission.gov.uk">c-waddell@audit-commission.gov.uk</a> 0844 798 1632	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Catherine Banks Audit Manager	<a href="mailto:c-banks@audit-commission.gov.uk">c-banks@audit-commission.gov.uk</a> 0844 798 1601	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Resources and Heads of Finance.
Campbell Dearden Team Leader County	<a href="mailto:c-dearden@audit-commission.gov.uk">c-dearden@audit-commission.gov.uk</a> 0844 798 1635	Team Leader. Key point of contact for Principal Finance Officers.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission’s additional requirements for independence and objectivity as summarised in appendix 1.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 6: Threats and safeguards

Threat	Safeguard
One member of staff on my team has a relative who works in the pensions team in a non-finance position.	This member of staff will not undertake or review any work relating to payroll and pensions.

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission’s Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

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## **The fee for the audit is £555,300, as set out in my letter of 6 April 2011.**

### **The audit fee**

The Audit Commission has set a scale audit fee of £555,300 which represents a 10 per cent reduction on the original audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

### **Assumptions**

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Corporate Director Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take.

- Improve the adequacy of the control environment.

## Total fees payable

In addition to the fee for the audit, the Audit Commission charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 7: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£555,300	£637,000*	- £81,700
Certification of claims and returns	£102,000 (revised estimate)	£102,045	-£45
Non-audit work	£0	£52,000	- £52,000
<b>Total</b>	<b>£645,300</b>	<b>£779,965</b>	<b>£134,665</b>

\* Original fee of £617,000 plus additional fee of £20,000

# Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 8: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards are put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	



Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively; and
  - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by the agreed date;
  - undertake appropriate quality reviews of the financial statements and supporting working papers;
  - other information requested within agreed timescales;
  - you will inform me of significant developments impacting on the audit; and
  - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on Council internal controls that support the achievement of the Council's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

**Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Group accounts**

Consolidated accounting statements of a Council and its subsidiaries, associates and jointly controlled entities.

**Internal control**

All controls, financial and otherwise, the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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- any director/member or officer in their individual capacity; or
- any third party.



**Audit Committee**

**31 May 2012**

**Update on Duplicate Payments**



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**Report of Don McLure, Corporate Director Resources**

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**Purpose of the Report**

1. To update Members of the actions being taken and further plans to reduce the Authority's risk of making duplicate payments.

**Background**

2. As Members are aware, the Council implemented the Oracle financial management system in November 2008. The Oracle Accounts payable module is the corporate system for paying all creditors, however, post vesting day the former District financial systems continued whilst arrangements were made to migrate onto the Council corporate single system.
3. Between August 2010 and August 2011 the Council successfully migrated from the 8 separate payment systems onto the Oracle system.
4. Whilst the 8 systems were operating Internal Audit conducted an assurance review into the number of duplicate payments being processed across the separate systems. Audit Committee have previously reviewed the findings from this review and received an update on action being taken to address the weaknesses that were identified.

**Audit Findings**

5. As Members may recall, Internal Audit reported that a large number of 'potential' duplicate payments were processed between 1 November 2008 and 31 March 2011.
6. Members will be pleased to note that this review has been ongoing throughout 2011/12, with the service managers undertaking a quarterly review of all potential duplicate payments as identified by Internal Audit and the outcome of this work being reviewed by the Accounts Payable Team.
7. This report focuses on the current position for Financial Year 2011/12. During this period a number of duplicate payments have continued to be processed due to a number of reasons as follows:
  - Staff within services failing to consistently comply with the corporate Procure to Pay (P2P) policy. This is through a combination of a lack of awareness, inconsistent training and

basic disregard to agreed policies. The P2P policy sets out how to raise a requisition for goods and services, how to proceed to the ordering stage, the requirement to receive goods within Oracle and ultimately how to process the invoice. Duplicate payments had occurred due to non-compliance with the P2P policy as detailed below:

- duplicate purchase orders had been created for the same goods
  - purchase orders had been created following receipt of the invoices
  - purchase orders had not been created for expected supplies and services
  - different order numbers were quoted on copies of the same invoice passed for payment
- Checks and controls in services were not consistently being performed to the standard expected, as copy invoices as well as the originals had been passed for payment
  - Invoices had been manually input into Oracle incorrectly. Steps were immediately taken by the Accounts Payable (AP) Manager instructing his team on the required format for inputting invoice reference numbers into Oracle
  - Some weaknesses in the Oracle system controls which mean that the system is not capable of detecting all of the types of duplicate payments identified at source.

### **Current Position - Duplicate Payments in 2011/12**

8. Analysing the data and carrying out investigations into the duplicate payments continues to require the commitment of considerable staffing resource.
9. Internal Audit extract schedules of potential duplicate payments on a quarterly basis. These are then examined by the Accounts Payable (AP) Team, with each payment investigated and invalid items removed to leave only true duplicates for further follow up work with the relevant service and action being instigated to recover the overpayment.
10. In the final quarter of 2011/12 to 31 March 2012, a total of 51 invoices were identified as being potentially duplicate, with a total value of £19,018.73.



11. In the period to 31 December 2011 there were 44 invoices identified as duplicates, totalling £68,040.50. Of this £50,498.52 (74.22%) has been fully recovered, with a further £17,541.98 (25.78%) still outstanding.
12. The AP Team is currently making enquires to recover any monies identified a duplicate payments for the final quarter of 2011/12, as well as chasing the 25.78% of unrecovered monies from quarters 1-3 of 2011/12.
13. Accounts Payable staff will continue to examine the invoices identified with values under £1,000 plus any further duplicates as reported.
14. The Procure to Pay (P2P) review will, amongst other things address the weaknesses in the systems of control within the P2P process; this will mitigate the risk of making duplicate payments in future.
15. Resulting from the P2P review thus far, the steps taken to improve controls are as follows:
  - Instructions have been sent to all staff involved in requisitioning process to comply with the corporate policy and procedures
  - A variety of management reports are being produced to identify where process improvements should be targeted
  - Staff are working with suppliers for which a high volume of invoices are currently processed in order to consolidate invoices and streamline the invoicing and payment process
  - Training needs and approval hierarchies within Oracle are being challenged and refreshed / updated
16. Letters will shortly be sent to all suppliers reminding them of the Council's policy to only pay invoices quoting an official purchase order number and instructing them that all invoices must be sent directly to the Accounts Payable team for payment as a number of suppliers have still not update their records and continue to post invoices to a variety of locality offices.
17. Through the use of procurement cards and roll out of initiatives such as i-expenses, plus corporate initiatives such as the introduction of the commensura contract (for paying agency workers) the number of invoices being processed is reducing.
18. The AP Team currently scan c99% of all invoices into Oracle, this has been the case since 23<sup>rd</sup> January 2012. This is an important development as it removes the need for manual input of data and the potential for mis-typing invoice details. It also optimises the use of electronic workflow within Oracle for querying invoices and minimises the handling of paper invoices. It is anticipated by August 2012 all invoices

will be being scanned and indexed within Oracle, in line with the original business case and workflow requirements.

## **Recommendations**

19. Members are recommended to note:

- the level of duplicate payments made in 2011/12 and the progress made to date with regards to recovering these sums.
- the work being undertaken by the Procure to Pay review team to address compliance issues with regards to the corporate policy and system control weaknesses

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**Contact: Christopher Jones**

**Tel no. 0191 3834112**

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# **Interim governance report**

**Durham County Council Pension Fund**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

<b>Summary report .....</b>	<b>2</b>
Introduction .....	2
Audit approach.....	2
Main conclusions .....	3
Way Forward .....	3
<b>Appendix 1 Action plan .....</b>	<b>4</b>

# Summary report

## Introduction

**1** The Audit Commission's Code of Audit Practice requires that we give an opinion on the Fund's annual financial statements. We are required to plan and perform our work in accordance with International Standards on Auditing (UK and Ireland) (ISAs) and to meet this requirement we have undertaken a pre-statements audit at the Fund.

**2** Our pre-statement audit work is undertaken between January and May 2011 and this report summarises our preliminary findings. The work is substantially complete.

**3** Our work on the financial statements will be undertaken between June and September 2011 and we will report on this separately.

## Audit approach

**4** Our audit complies with the ISA Clarity (UK&I) standards. The ISAs require us to identify all information systems that lead to material balances in the financial statements, and to evaluate and test relevant key controls at the assertion level. The work we have completed is as follows.

- Stage 1: carry out a risk assessment of the general environment within which the Fund's information systems operate.
- Stage 2: map the systems that provide material figures in the financial statements.
- Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is operating as stated.
- Stage 4: assess which are the key controls to ensure the integrity of the accounting entries and obtain evidence that they are operating as intended (testing to be completed).

**5** This work identifies the extent to which we can gain assurance from the controls the Fund has put in place, and informs the testing strategy for the financial statement presented for audit.

**6** We have identified eight material information systems in total and these are set out below.

- General Ledger.
- Payroll.
- Investments.
- Treasury Management
- Investment Income.
- Contributions receivable.
- Transfer Values In.
- Transfer Values Out.

## **Main conclusions**

**7** There are a number of systems where expected controls are not in place (gaps in control).

**8** As can be seen from the action plan below, officers have already introduced controls for some weaknesses identified.

## **Way Forward**

**9** The Audit Committee has a key role in ensuring that appropriate action is taken to address the weaknesses identified. Successful implementation of actions to address these weaknesses will not only strengthen the Fund's financial systems, it should lead to reduced audit fees in the future.

## Appendix 1 Action plan

### Recommendations

#### Related Party Transactions: Non Returns of Members Declarations (Ex 1)

##### Recommendation 1

Officers should monitor the return of declarations from all Pension Fund Committee members to ensure timely receipt of all returns.

<b>Finding</b>	In 2010/11 some non–DCC members of the PF committee did not submit declarations of interest in relation to their membership on the Pension Fund committee.
<b>Responsible</b>	Hilary Appleton
<b>Priority</b>	Medium
<b>Auditor comments</b>	The risk is that inadequate or inaccurate disclosure is made in the accounts.
<b>Authority comments</b>	Officers are requesting specific declarations from members on the Pension Fund Committee.

### Recommendations

#### Monthly reconciliation of Fund Manager reports to the General Ledger (Ex 4)

##### Recommendation 2

Officers should evidence that the reconciliation has been reviewed and authorised by an independent senior officer.

<b>Finding</b>	This November 2011 reconciliation was prepared by Aynsley Merritt but was not reviewed by a senior officer.
<b>Responsible</b>	Hilary Appleton
<b>Priority</b>	Medium
<b>Auditor comments</b>	The risk is that any discrepancies within the reconciliation are not dealt with on a timely basis
<b>Authority comments</b>	From January 2012 the reconciliation has been signed and dated as reviewed by a senior officer.  In addition, the reconciliation is prepared on a cumulative basis and will be evidenced as reviewed and authorised at the year end.



## Recommendations

### Transfer Values Out (Ex 6)

#### Recommendation 3

Officers should evidence that the output sheet has been reviewed.

<b>Finding</b>	After each pension payment run, the accounts payable section provide an output sheet to the pension fund section which shows details of payments made. Officers within the pension section explained that this is compared to a spreadsheet maintained in the pensions section to ensure that payments made are accurate.  This review is not evidenced.
<b>Responsible</b>	Nick Orton
<b>Priority</b>	Low
<b>Auditor comments</b>	The risk is that the inaccurate payments are made but not identified on a timely basis.

#### Authority comments

## Recommendations

### Authorisation of S35s (Ex 7)

#### Recommendation 4

Officers within the pension fund section should create and maintain an authorised signatories list of employees at each authority who can authorise S35s submitted as being accurate.

<b>Finding</b>	As noted in previous years, no authorised signatories list exists within the pension fund section of employees at each authority who can authorise S35s submitted as being accurate.
<b>Responsible</b>	Nick Orton
<b>Priority</b>	Low
<b>Auditor comments</b>	The risk is that the S35 has not been authorised by an approved officer and that the contributions and the figures held on the S35 are inaccurate.
<b>Authority comments</b>	In previous years officers have stated that they do not consider it necessary to create a signatory list

## Recommendations

### Omission of information from S35s (Ex 8a)

#### Recommendation 5

Officers should repeat their request for employers to provide contribution rates on the S35s.

Officers should evidence all reviews of contribution rates. .

<b>Finding</b>	<p>As noted in previous years some authorities, including the larger authorities, do not provide details of their contribution rates on their S35s, despite specific requests from the Pension Fund. As a result it is not possible for the pension fund to ensure that employers are paying the correct contributions.</p> <p>Officers have explained that a review of the employer contribution rates is undertaken at the beginning of each year, as well as on an ad hoc basis throughout the year. This is not evidenced.</p>
<b>Responsible</b>	Nick Orton
<b>Priority</b>	Medium
<b>Auditor comments</b>	The risk is that the incorrectly calculated contributions would not be identified on a timely basis. .
<b>Authority comments</b>	<p>In previous years officers have stated that: there is little they can do if employers do not provide contribution rates on their S35s.</p> <p>They will consider evidencing the review of contribution rates.</p>

## Recommendations

### Accuracy of pensionable pay figures on S35s (Ex 8b)

#### Recommendation 6

Officers should request employers to accompany the S35 to provide assurance that the pensionable pay figure is correct.

<b>Finding</b>	As noted in previous years, it is not possible for the pension fund to check the accuracy of pensionable pay submitted on S35s, as they do not have access to employer payroll systems.
<b>Responsible</b>	Nick Orton
<b>Priority</b>	Medium
<b>Auditor comments</b>	The risk is that the incorrectly calculated contributions would not be identified on a timely basis.
<b>Authority comments</b>	In previous years officers have stated that they do not consider it necessary for employers to provide payroll downloads wit their S35s.

## Recommendations

### Compliance with Code of Practice (Ex 12)

#### Recommendation 7

Officers should prepare the 2011-12 Pension Fund accounts by reference to the CODE, disclosure checklists and example accounts.

<b>Finding</b>	DCCPF accounts were not fully Code compliant in 2010-11.
<b>Responsible</b>	Hilary Appleton
<b>Priority</b>	Medium
<b>Auditor comments</b>	The risk is that the Pension Fund accounts are not Code compliant.
<b>Authority comments</b>	Officers will prepare their accounts having regard to the CIPFA example accounts, disclosure checklist and other Pension Fund accounts cited as good practice.

## Recommendations

### Contributions receivable from smaller bodies not separately identified (Ex 14)

#### Recommendation 8

Officers should review the posting structure within payroll so that each employer has a separate cost centre for contributions receivable.

<b>Finding</b>	As in previous years, 11 of the 12 Parish and Town Councils do not have a separate GL cost centre for contributions receivable: they are all posted to the contributions receivable cost centre for the Forge. Officers explained that this was due to the Payroll section not being able to split the contributions made by each body before the payroll upload file is uploaded to the GL.
<b>Responsible</b>	Nick Orton
<b>Priority</b>	High
<b>Auditor comments</b>	The risk is that contributions receivable incorrectly posted to GL would not be identified.
<b>Authority comments</b>	In previous years officers in the pension section have stated that this is a payroll issue and that the payroll section seem unable to adjust the posting structure.

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May 2012

# Interim governance report

**Durham County Council**

**Audit 2011/12**

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# Contents

<b>Introduction .....</b>	<b>2</b>
<b>Audit approach.....</b>	<b>3</b>
Pre statements audit.....	3
Opinion risks .....	4
Early Substantive testing .....	4
<b>Main conclusions .....</b>	<b>5</b>
Material information systems .....	5
<b>The way forward.....</b>	<b>7</b>
<b>Appendix 1 Action plan .....</b>	<b>8</b>

# Introduction

**1** The Audit Commission's Code of Audit Practice requires that I give an opinion on the Council's annual financial statements. I am required to plan and perform my work to meet International Standards on Auditing (UK and Ireland) (ISAs).

**2** My work on Durham County Council's (the Council's) annual financial statements is split into two parts.

■ Pre statements audit (interim audit):

- updating, documenting and walking through your systems;
- identifying and testing key controls, where applicable;
- reviewing the implementation of IFRS; and
- any early substantive testing.

■ Post statements audit:

- testing material balances and ensuring the financial statements are in line with accounting standards.

**3** I undertake my pre statements audit work from January to June 2012. This report summarises my preliminary findings on work so far. The work is substantially complete although I have yet to complete my walkthrough tests on property, plant and equipment due to the processing of many transactions in April and May 2012.

**4** I will undertake my post statements work from July to September 2012 and will report on this separately in September 2012. Appendix 1 contains the action plan which shows action agreed by officers for all recommendations.



# Audit approach

## Pre statements audit

**5** There are two stages to my audit approach for considering the controls within material information (financial and non-financial) systems.

- understanding the entity; and
- addressing identified risks in the audit.

**6** Understanding the entity includes gaining an understanding of the Council's control environment, information systems and their control procedures. The information systems include the general ledger and all the subsystems (both financial and non-financial) that produce material entries in the financial statements.

**7** The work I have completed is as follows.

- Stage 1: carry out a risk assessment of the general environment within which the Council's information systems work.
- Stage 2: map the interfaces of all information systems to the general ledger to find which systems provide the data for the material balances within the accounts.
- Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is working as stated.
- Stage 4: identify the key controls that ensure the integrity of the accounting entries and get evidence that they are working as intended.
- Evaluate the risks of material misstatement from the results of the steps above.

**8** This work identifies the extent to which I can gain assurance from the controls the Council has put in place, and informs the testing strategy for the financial statements presented for audit.

**9** I assess whether I intend to rely on key controls or undertake substantive testing, whichever is the most effective and efficient. Obviously for some risks of material misstatement, for example around year-end cash balances, substantive third-party confirmation provides more assurance than relying on controls within the cash and bank system.

**10** My testing strategy, as reported in my audit plan earlier this year, showed that as last year it was likely that I would carry out a largely substantive audit. This is because it continues to be more effective as all former systems were transferred to one common system during the year.

**11** As last year, I have again identified many material information systems (53 compared to 62 last year, see Table 1 below), because of the number of legacy systems still in use at some point during the year post Local Government Reorganisation.

## Opinion risks

**12** My opinion audit plan set out the significant and specific risk areas for review during the audit as:

- Introduction of new Revenues and Benefits system and new Accounts Receivable system during the year (significant).
- Introduction of a new Single asset register during the year (significant).
- Sixteen schools transferring to Academy status (significant).
- Introduction of self financing model for the HRA and detailed settlement payments paid March 2012 (significant).
- Changes to Group structure and assessment of need for Group accounts (significant).
- Pension assets valuation in accordance with IAS19 (significant).
- Journal authorisation (specific).
- Related party transactions (specific).
- Revenues and benefits reconciliations (specific).
- Job evaluation and equally pay (specific).
- Heritage assets identification and disclosures (specific)

## Early Substantive testing

**13** The plan also outlined possible areas where we could carry out early substantive testing at the interim stage to try to reduce the burden in the July to September period:

- Income and expenditure testing;
- Bank Reconciliations;
- investments and loans;
- Payroll predictive analytical review and testing.

# Main conclusions

## Material information systems

**14** My review of the material information systems focused on confirming that systems are performing as described (and documented) and identified several key control weaknesses. Appendix 1 contains a detailed action plan which identifies all control weaknesses found during our walkthrough testing along with recommendations and officer comments. The table below summarises the main recommendations for each material information system found during our pre statements testing.

Table 1: **Material information systems – recommendations**

Material information system (number of systems)	Recommendation – need for:
General Ledger (8)	<ul style="list-style-type: none"> <li>■ supporting documentation</li> <li>■ review and authorisation of journals</li> <li>■ production of regular trial balances</li> </ul>
Payroll (1)	<ul style="list-style-type: none"> <li>■ authorised signatories list</li> <li>■ authorisation of BACS transmission files</li> <li>■ return of signed copy redundancy agreements</li> <li>■ review and authorisation of reconciliations</li> </ul>
Accounts Payable (1)	<ul style="list-style-type: none"> <li>■ independent review of pay sheets and BACs files</li> <li>■ authorised signatories list</li> <li>■ review of non purchase order invoices</li> <li>■ control account reconciliations</li> </ul>
Accounts receivable (1).	<ul style="list-style-type: none"> <li>■ control account reconciliations</li> <li>■ timely raising periodic invoices</li> <li>■ reconciliation between SIMS and accounts receivable</li> </ul>
Loans and investments (1).	<ul style="list-style-type: none"> <li>■ Review and authorisation of reconciliations</li> </ul>
Oracle Projects (1).	<ul style="list-style-type: none"> <li>■ Authorised signatories list</li> </ul>

Material information system (number of systems)	Recommendation – need for:
Repairs and Maintenance (1).	<ul style="list-style-type: none"> <li>■ Authorised signatories list</li> </ul>
Social services information Database - SSID (1).	<ul style="list-style-type: none"> <li>■ Reconciliation to accounts payable</li> </ul>
Schools Information Management System - SIMS (1).	<ul style="list-style-type: none"> <li>■ Authorisation of invoices</li> <li>■ Authorised signatories list</li> <li>■ Reconciliation to accounts payable</li> </ul>
Housing benefits (8)	<ul style="list-style-type: none"> <li>■ Review and authorisation of payment runs</li> <li>■ Standard format for Rent rebate, council tax, rent allowances reconciliations</li> <li>■ Authorisation of parameters</li> </ul>
Council tax (8)	<ul style="list-style-type: none"> <li>■ Reconciliation of VOA schedules</li> <li>■ Authorisation of parameters</li> </ul>
Business rates - NNDR (8).	<ul style="list-style-type: none"> <li>■ Reconciliation of VOA schedules</li> <li>■ Authorisation of parameters</li> </ul>
Housing rents (3).	<ul style="list-style-type: none"> <li>■ Authorisation of feeder system upload files</li> <li>■ Review and authorisation of weekly cash reconciliation</li> <li>■ Reconciliation of rents system to general ledger</li> <li>■ Timely authorisation of uprating calculation</li> <li>■ Review of property removal</li> </ul>
Cash receipting (1)	<ul style="list-style-type: none"> <li>■ Timely clearance of suspense accounts</li> <li>■ Evidence of cash sheet total reconciliations</li> <li>■ Cash upload reconciliation</li> </ul>
Bank reconciliations (8)	<ul style="list-style-type: none"> <li>■ Preparation and authorisation of bank reconciliations on a timely basis</li> <li>■ Authorisation only when all reconciling items identified</li> </ul>
Supporting people (1)	<ul style="list-style-type: none"> <li>■ Reconciliation to accounts payable system</li> </ul>

## The way forward

**15** The Audit Committee has a key role in ensuring that officers take suitable action to address the weaknesses identified. Successful implementation of actions to address these weaknesses will not only strengthen the Council financial systems, it should lead to reduced audit fees in the future.

## Appendix 1 Action plan

### Recommendation 1: General Ledger – Journal documentation (Ex.6)

Supporting documentation should accompany all journals. This will allow the 'inputter' to view the documentation to ensure its accuracy before posting.

<b>Finding</b>	No supporting documentation accompanies journals when sent to the Ledger Management Team for input. Instead departments keep all documentation. It is therefore not clear how the Ledger Management Team know the amounts in the journal are accurate.
<b>Responsibility</b>	Service Finance
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is journals being input with no understanding of what the journal is for and that inaccurate journals are input into the General Ledger.
<b>Authority Response</b>	Journals are prepared and reviewed by service accountants who retain the appropriate documentation.  The Ledger Management team's role is to process journals and to ensure that the journal has been correctly entered into the system. Accuracy checks on the journal entries are carried out in services.

### Recommendation 2: General Ledger: Journal authorisation (Ex.7)

The Council should introduce the review and authorisation of journals before posting to the General Ledger.

<b>Finding</b>	A journal chosen during the walkthrough had no evidence of authorisation prior to input into the GL. There is no requirement for journal entries to be reviewed and authorised by a senior officer prior to upload.
<b>Responsibility</b>	Strategic Finance
<b>Priority</b>	High
<b>Auditor Comments</b>	Without authorisation there is a risk that errors may not be identified prior to the Journal being input and that inappropriate journals could be posted to the GL.
<b>Authority Response</b>	The review and authorisation of journals was discussed at the last audit.  The volume of journals processed by Finance will require consideration of the process of review and authorisation to ensure that it is done efficiently. As appropriate, Strategic Finance will issue instruction to all service accounting teams to review and approve journals prior to entering into the General Ledger. This recommendation was the subject of an internal audit review to establish best practice.

### Recommendation 3: General Ledger: Dataset reconciliations (Ex.8)

The Council should complete regular reconciliations of dataset upload files.

<b>Finding</b>	<p>ICON cash receipting, Durham City Homes rents and payroll datasets are uploaded into the General Ledger. However, it is possible to amend the datasets. As a result there is a risk of amendment to the datasets before posting to the General Ledger.</p> <p>Officers have introduced Payroll and cash receipting upload file reconciliations. However, there is no reconciliation of the Durham rents upload file to the General Ledger.</p> <p>This also affects GL AIM uploads because of the .dat format, resulting in the possibility of amendment of files before upload into General Ledger.</p>
<b>Responsibility</b>	Ledger Management/ Service Finance
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is amendment of datasets resulting in the upload of errors to the General Ledger.
<b>Authority Response</b>	<p>Partially a Ledger Management issue. There are amendments made to files to allow processing. This is to change headers, footers or periods to ensure that files are 'unique', particularly that they have unique 'headers' so that they can be successfully uploaded into Oracle.</p> <p>The originating service can produce more than one file of data per day with the same header which it is not possible to upload into Oracle.</p> <p>It is agreed that upload files could be locked to prevent amendment. However, introducing the appropriate system would be costly and unlikely to be a priority. Confirmation from ICT Services that it is possible to lock the file(s) would need to be sought. As all amendments are processed via the correction facility in Oracle, there is no reason, subject to IT being able to arrange this, that files may not be locked.</p>

#### Recommendation 4: General Ledger: Opening Balances (Ex. 9)

The Council should document a review of the opening balances to confirm the General Ledger has brought the correct balances forward.

<b>Finding</b>	<p>The Oracle General Ledger automatically carries forward Opening balances. Officers are unaware of any procedures to check opening balances carried forward are correct.</p>
<b>Responsibility</b>	Strategic Finance / Financial Systems
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the Oracle GL does not carry forward the opening balances accurately, and officers do not identify this as no review takes place.
<b>Authority Response</b>	<p>Oracle does not bring forward balances; it perpetually calculates balances on account from the sum of the transactions.</p> <p>The opening balances were checked by officers after amendments were made following the audit of the Statement of Accounts to ensure that the ledger matched the Statement of Accounts.</p>

### Recommendation 5: General Ledger: Trial Balance (Ex.10)

The Council should complete regular trial balances to ensure there are no major differences.

<b>Finding</b>	Completion of regular trial balances has not taken place during 2011/12. Trial balances are instead only completed at the year-end.
<b>Responsibility</b>	Ian Herberson
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is that an imbalance occurs that is not identified before the year-end. Trial balances will be substantively tested at year end.
<b>Authority Response</b>	Agreed. Trial balances are being undertaken weekly, daily during the final accounts period. A trial balance was run on 9 March 2012, ahead of the final accounts period and was in balance.  During the year, trial balances should be run to ensure the system is in balance. On a monthly basis, there should also be a reconciliation to the Discoverer Reports.

### Recommendation 6: General Ledger: Electronic authorisation (Ex. 11)

The Council should introduce a system of approving reconciliations using emails. This will require the approving officer to email the preparer to confirm the reconciliation is accurate.

<b>Finding</b>	Officers complete monthly Drive to Oracle reconciliations. A suitable officer then reviews and approves the reconciliation. This is an electronic authorisation which makes it difficult to verify the officer reviewing the reconciliation.
<b>Responsibility</b>	Strategic Finance
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the review of the reconciliation does not take place.
<b>Authority Response</b>	The weekly reconciliation of the files processed through the AIM interface from the former District Council's Agresso systems to Oracle no longer occurs. As the Agresso systems have been decommissioned, this reconciliation is no longer applicable.

### Recommendation 7: Payroll: No authorised signatories list (Ex.14)

Either the Payroll section or the Service Departments should introduce an authorised signatories list, to help reduce the risk of submission of fraudulent time sheets.

<b>Finding</b>	Neither the Payroll section nor the individual departments keep an authorised signatories list. It is not possible to confirm an approved officer has signed the manual time sheets.
<b>Responsibility</b>	Nick Orton
<b>Priority</b>	Medium
<b>Auditor</b>	The risk is submission of inaccurate or fraudulent claims without the knowledge



<b>Comments</b>	of the supervising officer
<b>Authority Response</b>	<p>Creating, maintaining and using an authorised signatories list would be significant, labour intensive paper based task which would have doubtful benefits. A more suitable approach for confirming the validity of claims is to move where possible to electronic submission of claims. The identity of the individuals submitting/authorising the claims is confirmed through their logging on to the system. Online mileage claims are already being rolled out across the Authority. The payroll system allows for the facility to allow electronic submission of additional hours worked. Some development work will be required and a decision on whether to develop this functionality is likely to be taken by 30 September 12.</p> <p>At present, a check is carried out to establish that timesheets and claims have been signed. The implementation of a module for recording additional hours on a self service basis, similar to the MyView system, should be achievable though it is not possible at this time to determine the true cost or savings that would be required / achieved through such a system. A Resourcelink development plan is in the process of being developed and it is expected that this will be included as a potential system development. Appropriate high level governance arrangements are in place to monitor the development of the Resourcelink system through project board arrangements.</p>

#### Recommendation 8: Payroll: BACS pay run authorisation (Ex.15)

The Payroll section should ensure a Team Supervisor authorises all BACS submission files.

<b>Finding</b>	After creating a BACS submission file the Team Supervisor authorises a hard copy of the file. However, no Team Supervisor had authorised the BACS submission file tested during audit.
<b>Responsibility</b>	Nick Orton
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is that no review of the BACS submission file took place. Increasing the risk of inaccurate payments.
<b>Authority Response</b>	All BACS submission files are now authorised by a Team Supervisor.

#### Recommendation 9: Payroll: Voluntary Redundancy agreement not signed and returned by leaver (Ex. 18)

The Council should ensure all employees leaving have returned signed copies of the redundancy agreements.

<b>Finding</b>	The leaver tested had not signed and returned the voluntary redundancy agreement, sent by the Council. Officers confirmed the employee should have returned a signed agreement. However, because of the volume of redundancies processed during the year they have been unable to check the return of all redundancy agreements.
<b>Responsibility</b>	HR
<b>Priority</b>	Medium

**Auditor Comments** The risk is that the Council incorrectly processes voluntary redundancies without the individual concerned agreeing to take redundancy.

**Authority Response** From June 2012 the process will be undertaken from one central point (The new HR Service) and in this regard audit and monitoring checks will be implemented to ensure all cases have the appropriate signatures prior to agreement to cases.

### Recommendation 10: Payroll: Reconciliation of payroll upload files to GL (Ex.19)

The Council should ensure a senior officer reviews and authorises all reconciliations in retrospect.

**Finding** The Ledger Management Team completes a monthly reconciliation between the Payroll upload files and the General Ledger. However, there is no independent review and authorisation of the reconciliation.

**Responsibility** Beverley White

**Priority** Medium

**Auditor Comments** The risk is the reconciliations are not accurate and because no review takes place this is not identified.

**Authority Response** Ledger Management team will report to Beverley White going forward. The review of the reconciliations will be done by Joanne Watson as the Ledger Manager's line manager.

### Recommendation 11: Accounts Payable: Payrun authorisation (Ex.3)

The Council should introduce an independent review of pay sheets and BACS files.

**Finding** Accounts Payable Team Leaders prepare daily pay run sheets in Oracle. However, there is no review and authorisation of the pay run by an independent officer to ensure the pay sheet is accurate.

**Responsibility**

**Priority** Medium

**Auditor Comments** The risk is the Council pays inappropriate invoices, and because of no formal review taking place this is not identified.

**Authority Response** Awaiting response

### Recommendation 12: Accounts Payable: Authorised Signatories List (Ex.50)

The Accounts Payable section should introduce an authorised signatories list. Officers could limit the lists size by reducing the number of individuals with the ability to certify non-purchase order invoices within each department.

**Finding** The Accounts Payable section do not keep an authorised signatories list. As a result they are unable to gain assurance that only approved officers certify non-purchase order invoices for payment.

**Responsibility**

**Priority** Medium

**Auditor** The risk is certification of invoices by unapproved officers resulting in payment of

<b>Comments</b>	inappropriate invoices.
<b>Authority Response</b>	Awaiting response

**Recommendation 13: Accounts Payable: Non-Purchase Order invoice review (Ex.51)**

An independent officer should review all non-purchase order invoices after entry into the Accounts Payable system. This officer should then validate the invoice for payment. This would help identify errors or inappropriate invoices.

<b>Finding</b>	<p>After the manual entry of non-purchase order invoices into the Accounts Payable system there is no review by an independent officer to ensure the details entered are correct.</p> <p>In addition, the same officer who entered the invoice details also manually validates the invoice in the Accounts Payable system, which approves the invoice for payment.</p>
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<b>Responsibility</b>	
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<b>Priority</b>	High
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<b>Auditor Comments</b>	The risk is that coding or payment errors occur because there is no independent review of the information entered into the Accounts Payable System. In addition, the processing of inappropriate invoices for payment is also a risk, as the officer entering the invoice details has the ability to validate the invoice for payment, without review from another officer.
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<b>Authority Response</b>	Awaiting response
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**Recommendation 14: Accounts Payable and Receivable: Control account Reconciliations (Ex.5)**

The Council should ensure the timely review and authorisation of all reconciliations by a senior officer.

<b>Finding</b>	Officers have completed regular Accounts Payable and Accounts Receivable control account reconciliations. However, in November 2011 the only reconciliations authorised by a senior officer were the August, September and October 2011 reconciliations.
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<b>Responsibility</b>	Ian Herberson
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<b>Priority</b>	Medium
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<b>Auditor Comments</b>	The risk is errors in the reconciliations are not identified as no review takes place.
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<b>Authority Response</b>	This process was implemented following the AGR for 2010/11. The reconciliation is completed by Financial Systems and reviewed by Strategic Finance. The review and authorisation is now done on a regular/monthly basis.
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**Recommendation 15: Account Receivable: Periodic Invoices (Ex.12)**

The Council should ensure the timely raising of all periodic invoices.

<b>Finding</b>	<p>Responsibility for periodic invoicing passed from the Accounts Receivable team to the Asset Management Team in 2011/12. Officers explained there was little handover between the two sections, which resulted in problems raising periodic invoices. Asset Management Team are only raising district invoices on a piecemeal basis as they only received district Agresso reports in November 2011.</p> <p>In addition, the Asset Management team has expressed concern that issuing of bills to some properties has not taken place for several years.</p>
<b>Responsibility</b>	
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the Council has not collected all periodical income.
<b>Authority Response</b>	Awaiting response

**Recommendation 16: Accounts Receivable: No reconciliation between Schools (SIMS) Receipts and Accounts Receivable System (Ex.13)**

The Council should introduce a formal reconciliation between the two systems to help ensure the upload of all receipts from the SIMS system into the Accounts Receivable system.

<b>Finding</b>	No formal reconciliation between the Accounts Receivable system and Schools (SIMS) system is completed. Instead, officers rely on an error message from Oracle to identify any receipts not correctly uploaded during the upload.
<b>Responsibility</b>	
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the Accounts Receivable system may not include all transactions from the Schools (SIMS) system.
<b>Authority Response</b>	Awaiting response

**Recommendation 17: Loans and Investments: Monthly reconciliation not authorised (Ex.17)**

The Council should ensure a senior officer reviews and authorises the monthly and year-end reconciliations.

<b>Finding</b>	<p>Investments and Loans - Officers perform a monthly reconciliation of the Investments Monitoring Schedule, which contains details of all investments made, and the General Ledger and of all PWLB interest and principal payments in the General Ledger to the PWLB Loan Schedule.</p> <p>In both cases, a senior officer reviews the reconciliation. However, there is no evidence of this review taking place.</p>
<b>Responsibility</b>	Ian Herberson
<b>Priority</b>	Medium
<b>Auditor</b>	The risk is the reconciliations are not accurate and because no review takes

<b>Comments</b>	place this is not identified.
<b>Authority Response</b>	Following Finance Unitisation, a senior officer has been assigned responsibility for this review.

**Recommendation 18: Oracle Projects: No authorised signatories list (Ex.54)**

Direct Services should compile an authorised signatories list to provide assurance that all extraction forms and time sheets have suitable approval.

<b>Finding</b>	No authorised signatories list is in place at the Direct Services site. This affects both extraction forms, used to confirm the receipt of goods, and manual time sheets. Site Foremen sign both to confirm their accuracy. It was not possible to confirm that an approved individual signed the extraction form and time sheet tested as no authorised signatories list is in place.
<b>Responsibility</b>	
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is that an inappropriate individual approves both the extraction forms and time sheets, resulting in the processing of inaccurate information.
<b>Authority Response</b>	Awaiting response

**Recommendation 19: Oracle Projects: Lack of evidence of surveyor visit or authorisation (Ex.55)**

Direct Services should ensure that Oracle Projects or a hard copy file documents all work completed by the Surveyor.

<b>Finding</b>	Officers claimed Surveyors re-measure Direct Services jobs to identify actual charges. However, there is no evidence of this inspection taking place. As the job file does not contain details of the Surveyors visit. Evidence of the surveyors approving the job is also limited.
<b>Responsibility</b>	
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is there is no visit and as a result an accurate estimate as well as approval of the job is not performed. This impacts on the value of the work completed, which may either over or under state the value of Durham County Council assets.
<b>Authority Response</b>	Awaiting response

**Recommendation 20: Repairs and Maintenance: Delivery note filing (Ex.20)**

Direct Services should ensure filing of all delivery notes in date or supplier order.

<b>Finding</b>	No formal filing system is in place for the delivery notes received by the Materials Controller. As a result it was difficult to find specific delivery notes.
<b>Responsibility</b>	
<b>Priority</b>	Low

**Auditor Comments** The risk is that Site Foremen do not provide the Materials Controllers with delivery notes. Instead, the Material Controller simply receipts the goods in Oracle when required to, to ensure the prompt payment of invoices. This may therefore result in inaccurate delivery and payment of goods.

**Authority Response** Awaiting response

### Recommendation 21: Repairs and Maintenance: No authorised signatories list (Ex.21)

Direct Services should compile an authorised signatories list to provide assurance that all time sheets have suitable approval.

**Finding** No authorised signatories list is in place at the Direct Services site. Approved officers sign manual time sheets completed by employees to confirm their accuracy. However, as there is no authorised signatories list it was not possible to confirm that the officer signing the extraction form and time sheet was approved to do so.

**Responsibility**

**Priority** Medium

**Auditor Comments** The risk is that an inappropriate individual approves time sheets, resulting in the processing of inaccurate information.

**Authority Response** Awaiting response

### Recommendation 22: Repairs and Maintenance: Receipting of materials in Oracle (Ex.22)

An independent officer should review receipts entered into Oracle to ensure the information entered is accurate, before Oracle recognises the receipts.

**Finding** The receipting of goods in Oracle for the transaction tested was not completed correctly. This is because the officer receipting the goods wrongly included the price (£12.98) in the quantity received column; while including the quantity received (1) in the price column.

Oracle updates any commitment already in the system, through multiplying the quantity by the unit price. This inaccurate treatment had no impact on the updated commitment; however officers stated that large errors have occurred because of the inaccurate receipting of goods in Oracle.

**Responsibility** Keith Munroe

**Priority** Medium

**Auditor Comments** The risk is the individual receipting the goods enters wrong information resulting in inappropriate balances in the General Ledger. Although, budget monitoring would identify this, it could be time-consuming to correct any errors uploaded in such a way.

**Authority Response** Introducing an independent check on every receipt entered is not practical as a control to eradicate occasional errors; plus there is no standard functionality to facilitate and it would require a customisation.

The compensating control is that all outstanding accruals for material amounts (above £250) are circulated (on a monthly basis) for review.

### Recommendation 23: SSID: Reconciliation of the SSID upload to the Accounts Payable system (Ex.16)

The Council should ensure the year-end reconciliation uses the control total sheet and that a senior officer reviews and authorises the year-end reconciliation.

<b>Finding</b>	Officers complete an informal reconciliation between the SSID upload file and the Accounts Payable system after every SSID upload. However, there is no control sheet in place and no formal documentation of the reconciliation exists. Officers have provided assurance that a control sheet will be introduced by the year-end.
<b>Responsibility</b>	Accounts payable
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliation is not in place and as a result not all invoices are uploaded to the Accounts Payable system for payment.
<b>Authority Response</b>	Although governed by the constraints of Oracle, reconciliation/control sheets are now checked, maintained and filed following each upload. It is assumed that the year end reconciliation is carried out by an officer from Strategic Finance.

### Recommendation 24: SIMS: Invoice not authorised for payment (Ex.23)

School Finance staff should ensure that all invoices are authorised. The School Manager should keep all GRN's on file to provide evidence the goods have been received

<b>Finding</b>	The Durham Federation Finance Team stated that an approved individual signs all invoices before payment. However, the invoice tested was not authorised for payment. In addition, there is no documentary evidence of the School Manager confirming the goods were received.
<b>Responsibility</b>	David Shirer
<b>Priority</b>	Low
<b>Auditor Comments</b>	The risk is the payment of inaccurate or fraudulent invoices. In addition, goods may not have been received as there is no formal documentation of the School Manager receiving the goods.
<b>Authority Response</b>	A reminder will be issued to schools via the Extranet, about recommended procedures.

### Recommendation 25: SIMS: Authorised Signatories List (Ex.24)

The School Funding Team should ensure the annual updating of all authorised signatory lists.

<b>Finding</b>	The Payment Authorisation Control Listing (PACL) tested was authorised by a member of staff not included on the authorised signatories list held by the School Funding Team.  Officers stated the authorised signatories list was out-of-date and provided evidence they were included on the petty cash authorised signatories list, which
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is a suitable compensating control.

<b>Responsibility</b>	David Shirer
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is an unapproved individual signs the PACL and as the signatories lists are not up to date this is not identified. This could result in payment of inaccurate or fraudulent invoices.
<b>Authority Response</b>	Agreed. The Creditor Team within School Funding will pursue this after half-term which is the best time to do this.

### Recommendation 26: SIMS: Reconciliation of the SIMS upload to Accounts Payable system (Ex.25)

The Council should ensure the year-end reconciliation uses the control total sheet and also ensure a senior officer reviews and authorises the year-end reconciliation.

<b>Finding</b>	Officers complete an informal reconciliation between the SIMS upload file and the Accounts Payable system after every SIMS upload. However, there is no control sheet in place. Therefore no formal documentation of the reconciliation exists.  Officers have provided assurance that a control sheet will be introduced by the year-end.
<b>Responsibility</b>	David Shirer
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliation is not in place and as a result not all invoices are uploaded to the Accounts Payable system for payment.
<b>Authority Response</b>	This is now done. Reports from SIMS are sent to Creditors who then report on discrepancies to School Funding

### Recommendation 27: Housing Benefits: Council Tax Benefit duplicate payment (Ex. 40)

The Council should ensure that officers review all cases on the spool report and make manual amendments to the affected claims.

<b>Finding</b>	City of Durham - Following conversion from the Northgate system to the Civica system, officers identified 48 claims with a total value of £17,403.33 receiving a duplicate Council Tax Benefit (CTB) payment in error. These claims were logged to be corrected.  Testing found that the Council made a duplicate Council Tax Benefit payment to Council Tax account 3612363390 for claim number 1009328.  As at 4 January 2012 officers had not amended the affected claims.
<b>Responsibility</b>	M Waters/ J Scotney
<b>Priority</b>	Low
<b>Auditor Comments</b>	The risk is the Council Tax Benefit posted to the claimants Council Tax account is wrong.
<b>Authority</b>	Conversion testing identified an issue regarding duplicated CTB payments,



**Response** CIVICA subsequently ran a utility identifying a total of 48 affected claims. All claims have now been corrected and updated. The CTB posted to the Council Tax accounts has also been checked and is correct.

### Recommendation 28: Housing Benefits: Benefit payment controls (Ex.41)

The Council should ensure a Senior officer reviews all Housing Benefits payments before submission.

<b>Finding</b>	Authorisation of Housing Benefit payments by a senior officer before processing is not required.
<b>Responsibility</b>	C Blackburn/ T Robinson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is payment of inaccurate or fraudulent payments, as there is no requirement for the payment file to be authorised.
<b>Authority Response</b>	All HB payment runs (BACS & Cheque) are now countersigned by a senior officer in line with the authorized signatory list before submission. Spreadsheets now record details of the officer creating the payment file, counter signing officer and offer responsible for the file submission.

### Recommendation 29: Housing Benefits: Rent Rebate Reconciliations (Ex.42)

The Council should introduce a standardised format for completing reconciliations. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation.

<b>Finding</b>	<p><b>Easington and Wear Valley</b></p> <p>Prior to January 2012, Rent Rebate reconciliations between the Housing Benefit system and the East Durham Homes and Dale and Valley Homes systems have only been completed on the former district systems.</p> <p><b>City of Durham</b></p> <p>The reconciliation does not reconcile the Housing Benefit system to the Housing rents system. Instead it is only reconciles the Housing Benefits system to the General Ledger.</p> <p><b>Durham County Council (Unitary)</b></p> <p>Officers have not performed reconciliations during 2011/12.</p>
<b>Responsibility</b>	C Blackburn/ T Robinson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the values contained within the Housing Rents systems do not agree to the Housing Benefits system.
<b>Authority Response</b>	At the time of the walkthrough, reconciliations had not been completed on the new merged system. Since January 2012, a full reconciliation has taken place for 2011/12 for all three of the HRA providers, with any discrepancies identified and noted. Reconciliation procedures have been developed and implemented internally. Reconciliation procedures have also been agreed with the housing providers, EDH, D&VH and DCH and reconciliations will continue to be

completed as part of the overall Rents Reconciliations for all three areas.

### Recommendation 30: Housing Benefits: Council Tax Benefit Reconciliations (Ex. 42)

The Council should introduce a standardised format for completing reconciliations. A senior should review also review and authorise the reconciliations. All entries and reconciling items should be referenced to supporting documentation.

<b>Finding</b>	No Council Tax benefit reconciliation has been completed during 2011/12.
<b>Responsibility</b>	C Blackburn/ T Robinson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the values contained within the General Ledger for Council Tax Benefit may not agree to those held within the Housing Benefit and Council Tax systems.
<b>Authority Response</b>	Following completion of the merged new system full reconciliation has taken place. Since January 2012 the monthly reconciliations have re-commenced.

### Recommendation 31: Housing Benefits: Rent Allowance Reconciliations (Ex.42)

The Council should introduce a standardised format for completing reconciliations. A senior should review also review and authorise the reconciliations. All entries and reconciling items should be referenced to supporting documentation

<b>Finding</b>	<p><b>Chester-le-Street</b></p> <p>The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included.</p> <p><b>City of Durham</b></p> <p>The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, this balance appears to exclude the BACS payment of £67 returned on 13 September 2011.</p> <p><b>Sedgefield</b></p> <p>The reconciliation prior to merge identified there were payments of £1,977,097.33 included in the Housing Benefit system that were not in the General Ledger. In addition, there is no evidence of follow-up to ensure the payment was subsequently included in the General Ledger.</p> <p><b>Durham County Council - Merged</b></p> <p>The reconciliation has not been completed in a timely manner and there is no evidence of review of the reconciliation by a senior officer.</p>
<b>Responsibility</b>	C Blackburn/ T Robinson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is that officers are unable to identify what the reconciling items are and the inaccurate completion of the reconciliation. Also there is a risk that all payments in the Housing Benefits system are not in the General Ledger and the Rent Allowance reconciliation has not been subject to review by a senior officer.

**Authority  
Response**

**Pre merged Chester le Street**

Officers have identified the discrepancies and are working to resolve the issue.

**City of Durham**

The balance appeared to exclude the £67, however this was a result of an unclear explanation. It had been identified during a reconciliation of the new system and the reconciliation details have been amended to explain the discrepancy.

**Sedgefield**

This amount was the advanced payment made prior to the shutdown of the Northgate system. This was identified during the reconciliation process and the former Sedgefield system has been reconciled and balanced.

**Durham County Council - Merged**

Following 'go live' of the new system, procedures are in place to reconcile payments on a monthly basis going forward. A full reconciliation has taken place for the 2011/12 merged system, with any discrepancies identified and noted. This will be completed during May 2012.

**Recommendation 32: Housing Benefits: First payment made to landlords (Ex.43)**

The Council should only make first payments to the claimant's landlord if the claimant has approved the payment.

<b>Finding</b>	The Council has followed the guidance in A4/2011 of making first payments to landlords, as detailed in the Council's official guidance issued to assessors. In the one case tested, the claimant made specific requests that they receive the first payment direct.
<b>Responsibility</b>	C Blackburn/ T Robinson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the Council are paying the first payment of Housing Benefit to the wrong recipient and would therefore be liable to repay the claimant the first payment. In addition, there is a potential risk through breaching the Data Protection Act 2000 by paying the claimants landlord without the claimants consent.
<b>Authority Response</b>	Housing Benefit (LHA & A4/2011) guidance states that an authority may make the first payment of Housing Benefit to the landlord, where they consider that it will assist the customer in securing or retaining a tenancy.

**Recommendation 33: Housing Benefits: Parameters (Ex.44)**

The Council should ensure a senior officer reviews and authorises the parameters entered into the merged system.

<b>Finding</b>	Officers could not provide evidence a senior officer has reviewed the parameters in the new merged Housing Benefit system.
<b>Responsibility</b>	M Waters/ J Scotney
<b>Priority</b>	High
<b>Auditor</b>	The risk is the parameters in the merged system have been wrongly entered

<b>Comments</b>	and therefore the benefit calculations made by the system will be inaccurate.
<b>Authority Response</b>	Spreadsheets were available detailing all parameters set and whilst all parameters were checked by a senior officer the spreadsheets were not countersigned.  Moving forward as part of 2012/13 annual billing processes all parameters have been set in accordance with the 2012/13 charges. All parameters have been checked and countersigned. The process of counter signing has now been adopted for all parameter changes.

### Recommendation 34: Council Tax: Reconciliation of VOA schedule to RV reports (Ex.32)

The Council should ensure the review and authorisation of the reconciliation by a senior officer.

<b>Finding</b>	Officers have completed a reconciliation of VOA schedule to banding reports. However, there is no evidence of review and authorisation of the reconciliation by a senior officer.
<b>Responsibility</b>	K Coad
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliations are not accurate and as no review takes place this is not identified.
<b>Authority Response</b>	Procedures have now been implemented to formally record the review which is undertaken by a senior officer.

### Recommendation 35: Council Tax and NNDR: Unable to provide documentation of new property (Ex.34 and 40)

The Council should ensure that all documentation is found and suitably filed.

<b>Finding</b>	Officers stated that planning department report all new properties or amendments to existing properties that require assessment for Council Tax and NNDR purposes. However, the supporting documentation for one new property was not readily available as evidence for testing at the time our work was carried out for Council tax at Sedgefield and NNDR at Derwentside, due to staff and documentation being located on several sites.
<b>Responsibility</b>	K Coad/ A Searle
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is that some properties are not charged Council Tax and NNDR as assessments are not undertaken.
<b>Authority Response</b>	Following the implementation of the unitary systems and structure, procedures have been put into place and documentation centralised and filed.

### Recommendation 36: Council Tax and NNDR : Authorisation of Parameters (Ex.46 and Ex.37)

The Council should ensure a senior officer should review the 2012/13 parameters, and formal documentation of the review kept.

<b>Finding</b>	<b>Sedgefield</b>  The parameters for 2011/12 were input into the system and then reviewed by
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an independent officer. However, documentation of the review took place several months after entering the parameters. Therefore there is only evidence of this control taking place in retrospect.

**Council tax - Wear Valley, Teesdale and Derwentside**

Senior officers entered the parameters and more junior staff then reviewed them (NB Teesdale - a senior officer did not review and authorise the NNDR parameters). This is a control weakness as there is a risk that junior staff do not have the relevant expertise and may feel pressured into agreeing the work of more senior officers when errors have occurred.

**Chester-le-Street and Easington**

Officers could not find supporting documentation to support the annual updating of parameters.

**City of Durham – NNDR only**

Officers claimed the parameters were input by two members of staff and then reviewed by a senior officer. However, the officer who claimed they reviewed the parameters has signed the supporting documentation as the inputting officer. The documentation does not include any evidence of another individual reviewing the parameters. Therefore there is no evidence to support the procedures described by officers.

**Durham County Unitary**

Officers could not provide documentary evidence of review of the Council Tax parameters after migration from the former district systems to the new unitary system.

<b>Responsibility</b>	M Waters/J Scotney
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the parameters were inaccurate and that no review was in place to identify the errors.
<b>Authority Response</b>	All former district sites are now obsolete i.e. Sedgefield, Wear Valley, Teesdale, Derwentside, Chester-le-Street and Easington.

**Durham County Unitary**

Spreadsheets were available detailing all parameters set and whilst all parameters were checked by a senior officer the spreadsheets were not countersigned. As part of 2012/13 annual billing processes all parameters were set in accordance with the 2012/13 charges.

All parameters were checked and countersigned. The process of counter signing has now been adopted for all parameter changes.

**Recommendation 37: Council Tax and NNDR: Fund account reconciliations (Ex.62)**

The Council should try to deal with all reconciling items ready for the year-end reconciliation. A senior officer should also review and authorise the year-end reconciliation. Going forward all reconciliations should be completed on a timely basis.

<b>Finding</b>	The Unitary Council Tax and NNDR system reconciliations were not completed in a timely manner and included a significant number of reconciling items, which officers were unable to explain as part of the January 2012 reconciliation.
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However, officers intend to resolve most reconciling items ready for the year-end reconciliation. In addition, no evidence of senior officer review and authorisation has taken place.

<b>Responsibility</b>	K Coad/ J Dowson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the General Ledger does not include all Council Tax and NNDR transactions.
<b>Authority Response</b>	Extensive work has been carried out in this area. A detailed action plan was developed, which included year end closedown procedures as well as a Reconciliation Proforma Log. Weekly meetings/updates continue to be conducted to monitor progress.  A senior officer has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.

### Recommendation 38: NNDR: Reconciliation of VO Schedules to RV reports (Ex.36)

The Council should ensure the review and authorisation of the reconciliation by a senior officer.

<b>Finding</b>	<b>Durham County Council – All Sites</b>  Officers have completed a reconciliation of VOA schedule to banding reports. However, there is no evidence of review and authorisation of the reconciliation by a senior officer.  <b>Easington</b>  For the 20 April 2011 the VO schedule states there are properties of 2,365 with a rateable value of 49,231,651. However, the property control report from the NNDR system shows properties of 2,364 with a rateable value of 49,254,901. Officers could not explain this difference.
<b>Responsibility</b>	K Coad/ A Searle
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliations are not accurate and as no review takes place this is not identified. Also risk that NNDR records are incomplete and as a result not all NNDR income that should be received is.
<b>Authority Response</b>	Procedures have now been implemented to formally record the review which is undertaken by senior officer.

### Recommendation 39: Housing Rents: Review of feeder system upload files not documented (Ex.26)

Officers should sign both the hardcopy summary file received from the feeder systems and the batch upload file from the Housing Rents system.

<b>Finding</b>	Officers at East Durham Homes reconcile the feeder system upload files and the batch uploaded into the Housing Rents system to ensure that it is complete. However, no documentary evidence of this review is kept. This is the case for both Cash Receipting and Housing Benefit files.
<b>Responsibility</b>	K Coad/ J Hughes

<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified. .
<b>Authority Response</b>	This reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through ICON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.

#### Recommendation 40: Housing Rents: Weekly cash reconciliation not documented (Ex.27)

All reconciliations should be reviewed, checked and authorised by a senior officer. Particular emphasis should be placed on ensuring the Year end housing rents reconciliations are reviewed and authorised. A control sheet could be introduced to evidence the reconciliation has taken place.

<b>Finding</b>	The weekly reconciliation between the control spreadsheet for EDH, for both Cash Receipting and Housing Benefit payments received, and the total payments as recorded in Orchard is completed (although not evidenced formally). However, there is no independent review and authorisation of the reconciliation by a senior officer.
<b>Responsibility</b>	K Coad/ J Hughes
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified.
<b>Authority Response</b>	This reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through ICON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.

#### Recommendation 41: Reconciliations between the rents system and General Ledger not completed (Ex. 28)

The Council should ensure completion of year-end reconciliations for all three sites. A senior officer should review and authorise all reconciliations.

<b>Finding</b>	<p><b>Easington</b></p> <p>As at 10 January 2012 officers had completed an informal reconciliation for the period April to November 2011. Officers are developing a control sheet that will formally document the reconciliation undertaken and are hoping to use this to document all 2011/12 monthly reconciliations retrospectively.</p> <p><b>Wear Valley and City of Durham</b></p> <p>No monthly reconciliations between the Housing Rents system and the General Ledger have been completed during 2011/12.</p>
<b>Responsibility</b>	J Hughes
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the General Ledger does not include all Housing Rent transactions.

**Authority Response** The `informal` reconciliation has been carried out for several years by the Rent team at EDH. However the reconciliation reviewed did not include a signed control sheet. It is acknowledged that this reconciliation should follow the standard format identified and therefore the process has now been introduced

#### Recommendation 42: Housing Rents: Authorisation of the rents uprating calculation (Ex.29)

The rents uprating calculation should be authorised on a timely basis.

**Finding** A senior officer has reviewed and authorised the rent restructure document used to uprate the rents across all three sites. However, this was in retrospect several months after the uprating took place. Therefore there is a weakness in the timeliness of the control.

**Responsibility** J Hughes

**Priority** Medium

**Auditor Comments** The risk is the rent calculation for 2011/12 contains errors that were not identified.

**Authority Response** The senior officer reviewed and authorised the rent restructure prior to the rents being uploaded, however the documentation evidencing this procedure was completed retrospectively. The 2012/13 review was completed and calculations signed off at the same time prior to upload.

#### Recommendation 43: Housing Rents: Agreement of properties in the rent restructure document to the rents system (Ex.30)

The Council should agree properties in the rent structure to the rents system on a timely basis.

**Finding** Officers carried out a random check of 15 properties for all three sites in retrospect several months after the new rents were uploaded to the rents systems. Therefore there is a weakness in the timeliness of this control.

**Responsibility** J Hughes

**Priority** Medium

**Auditor Comments** The risk is the rents have not been correctly uploaded and that this was not identified.

**Authority Response** A review of all three rent systems had taken place to confirm that the rents were uploaded correctly, however as noted above, the documentation evidencing this procedure was completed retrospectively. During audit sample checking, no errors were found in relation to the upload. The 2012/13 review was completed and calculations signed off at the same time prior to upload.

#### Recommendation 44: Housing Rents: Rent download and upload (Ex.39)

The Council should ensure officers gain an understanding of the process carried out by contractors so they can review the contractors work, or if the contractor is not available can complete the download themselves.

**Finding** The rent download and upload for City of Durham is completed by a contractor based in Spain. It was not possible for us to walkthrough the



process at the time of the audit.

<b>Responsibility</b>	J Hughes
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the contractor is not completing the rent download and uploads correctly and as a result of no review of the processes undertaken this is not identified.
<b>Authority Response</b>	In the context of the data load of new rents into the system, the rents are checked as above in order to review the contractors work. Should the contractor not be available, then the system supplier, Northgate, (or other consultants) would be able to undertake any requirements.

#### **Recommendation 45: Housing Rents: No review of property removal (Ex.45)**

The Council should introduce a review of all properties removed to ensure the removal has been completed correctly.

<b>Finding</b>	A process is in place for the removal of properties from the Housing Rents system. However, this does not involve the property removed being reviewed by an independent officer to ensure the removal is correct.
<b>Responsibility</b>	J Hughes
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is that properties that have either being privately bought or demolished are still included in the housing stock and charges and valuations are wrongly raised for these properties.
<b>Authority Response</b>	<p>There are current processes in place to inform the Rent Teams to remove properties from the Rent Account. Any errors are spotted by the nature of the service. For example, should a RTB not be removed and the Authority continued to charge the rent, the former tenant advises immediately of the problem. Similarly, should a demolished property not be removed, the rent arrears would be highlighted immediately and upon investigation the problem would be found.</p> <p>There is an overall check at the year end as part of the Final Accounts process, where a reconciliation of stock numbers is undertaken for the HRA Statement.</p> <p>A similar mid-year check took place in previous years as part of the Housing Subsidy Base data return and whilst this return is no longer valid, it is the Head of Finance (Financial Services) intention to continue with this mid-year reconciliation.</p>

#### **Recommendation 46: Cash Receipting: Suspense Account (Ex.58)**

The Council should clear the suspense account of all large items by the year-end.

<b>Finding</b>	As at 15 March 2012 the total value in suspense was £1,613,361.52. Of this balance, £1,568,871.34 related to March 2012. This does show significant improvement in managing suspense items from the very high balance seen early February 2012 which occurred due to the assignment of incorrect
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references meaning transactions were not automatically allocated. This has now resolved.

<b>Responsibility</b>	K Coad/ J Dowson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is that a high volume of income is not correctly posted by the year-end.
<b>Authority Response</b>	The re - referencing has been resolved. Suspense amounts are being cleared on a daily basis and monitored weekly by management. The year end action plan ensured that all payments were posted on 31st March 2012.

#### **Recommendation 47: Cash Receipting: Cash sheet totals reconciliation not evidenced (Ex.59)**

The Council should ensure documentation is maintained to provide evidence of reconciliations taking place.

<b>Finding</b>	No reconciliation was performed between the cash taken by the Spennymoor Cash Office and the amount recorded in ICON for the date tested, as the cash office printers were not working. This resulted in no hard copy documentation being obtained. Officers did however state that they reviewed ICON to ensure the values reconciled, although this review is not evidenced.
<b>Responsibility</b>	K Coad/ J Dowson
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the reconciliation is not performed and as a result errors are not identified.
<b>Authority Response</b>	Upon failure of a printer, end of day reports can be produced in the back office. All cashiers bankings have been reconciled from 1st April 2011 as part of the bank reconciliation. These form part of the reconciliation action plan.

#### **Recommendation 48: Cash Receipting: Cash upload files reconciliation (Ex.60)**

The Council should reconcile all accounts in the General Ledger that are affected by the upload file. In addition, the reconciliation should be reviewed and authorised by a senior officer.

<b>Finding</b>	A reconciliation is performed between the Cash upload file received from the ICON system and the cash recorded in the General Ledger, however this was only introduced 1 December 2011. The reconciliation only reconciles the element of the upload file coded to account 936900 - System Cash Account in the General Ledger. As a result the reconciliation for 9 January 2012 only reconciled £1,025,427.99 of £2,781,731.26 that was included in the cash upload file. In addition, there is no review and authorisation of the reconciliation by a senior officer.
<b>Responsibility</b>	K Coad/ J Dowson
<b>Priority</b>	High

<b>Auditor Comments</b>	The risk is the reconciliation does not highlight differences between the upload file and the General Ledger, as it only focuses on one General Ledger account and is not reviewed and authorised.
<b>Authority Response</b>	Originally this reconciliation only included amounts going through ICON, which explains that difference. Since then, the daily reconciliation has been extended to include all income. A senior officer now has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.

**Recommendation 49: Cash Receipting: Duplicate References (Ex.61)**

The Council should ensure that all income posted to duplicate reference accounts has been investigated and evidence gained that it has been posted to the correct account.

<b>Finding</b>	When the new ICON system was introduced there were many duplicate account references in the former district systems. As a result income received for one account may be wrongly posted to the other based on the duplicate reference. Officers have stated that this is no longer an issue as this was identified early in 2011/12. They have also stated the fund account reconciliations are identifying any errors.
<b>Responsibility</b>	K Coad/ J Dowson
<b>Priority</b>	Low
<b>Auditor Comments</b>	The residual risk is that income posted to the wrong account is not identified but this is not a material risk.
<b>Authority Response</b>	An exercise was undertaken to identify all duplicate account numbers and where possible checked for wrong payments. The ICON allocation rules were amended from September 2011 to ensure that this could no longer happen.

**Recommendation 50: Bank Reconciliations: Bank Reconciliations not prepared or authorised on a timely basis (Ex.56)**

The Council should ensure Bank reconciliations for all accounts should be prepared and authorised on a timely basis.

<b>Finding</b>	<p>As at 26 March 2012 the most recently completed County Fund reconciliation was 31 December 2011. January and February 2012 reconciliations were signed as prepared and reviewed on 27 March 2012 but they contained material amounts of items in the bank but not in General Ledger. Not all of these amounts were identified to transaction level.</p> <p>No district reconciliations have been undertaken since September 2011. Officers stated that one reconciliation will be prepared for each district, not each account, for the last 6 months of the year. In addition, there is no evidence the former district September 2011 reconciliations were reviewed and authorised.</p> <p>No Income Collection fund bank reconciliation has been undertaken during the year. This is because the bank reconciliation facility within ICON is not working.</p> <p>In addition, the Bank Reconciliations are not authorised on a timely basis.</p>
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Bank reconciliations are also being authorised even though they include material reconciling items that have not been identified.

<b>Responsibility</b>	K Coad/ J Dowson/ D Watchman
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is that bank or General Ledger errors will not be identified and corrected on a timely basis.
<b>Authority Response</b>	<p>Picked up by the Spennymoor team where extensive work has been carried out in this area. A detailed action plan has been developed. Weekly meetings/ updates continue to be conducted to monitor progress.</p> <p>A draft reconciliation is complete to 31 March 2012. However, a matching exercise is still underway. The finding refers to material, unreconciled items, this refers to cheque and BACS payments made from the Open Revenues system and not processed through Oracle.</p> <p>As there was no interface in place until April-12 to process the relevant GL coding in Oracle for these items, manual journals have been processed instead.</p> <p>There is now an exercise underway to match bank transactions (BACS batch values and individual cheque amounts) with manual journal entries (batch amounts). This should be completed by the w/e 20/5/12. As highlighted, the last reconciliations were carried out as at 30 September 2011. Since this date, each of these accounts have operated on an imprest basis (in that all credit transactions received are transferred on a daily basis over to the Income Collection account and are accounted for via ICON). Any debits that hit the account are coded manually in Oracle. The balances on each of these accounts were brought to zero as at 31 March 2012.</p> <p>The final exercise is still to be undertaken to ensure that the GL balances for each, reconcile to zero at the end of 11/12. This will be completed within days once the final adjustments that impact on these district balances have been processed from the Funds reconciliations and ICON bank reconciliation exercises. The ICON automated bank reconciliation module requires some data cleansing.</p> <p>Manual bank reconciliations have been undertaken for February, March &amp; April and are currently still being worked and reviewed accordingly.</p>

**Recommendation 51: Bank Reconciliations: Material sum of items through bank not included in General Ledger (Ex. 57)**

The Council should ensure that reconciliations are only authorised when all reconciling items have been identified.

<b>Finding</b>	No interface between the Open Revenues system and the General Ledger exists. Therefore transactions are being posted manually. This has resulted in large reconciling items in the Bank reconciliation as items have been included in the Bank but not yet posted to the General Ledger. For example in January 2012 there was a total of £100.9 million. Some, but not all of these balances, have been identified down to transaction level. Even though these reconciling items exist, the bank reconciliations are still being
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signed off.

<b>Responsibility</b>	K Coad/ J Dowson
<b>Priority</b>	High
<b>Auditor Comments</b>	The risk is the General Ledger will not accurately reflect the bank transactions, which may impact on other areas such as budgetary control. Manual posting introduces an added risk of error or manipulation.
<b>Authority Response</b>	A senior officer now has responsibility for reviewing all reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.

### **Recommendation 52: SPOCC: No reconciliation between the SPOCC system and the Accounts Payable system (Ex.31)**

The Council should perform formal reconciliations between the SPOCC system and the Accounts Payable System. A senior officer should review and authorise the reconciliations.

<b>Finding</b>	There is no formal reconciliation between the Accounts Payable system and SPOCC system. Officers stated they gain assurance that all payments processed through the SPOCC system are uploaded into the Accounts Payable system for payment, if no error warning appears when the file is uploaded.
<b>Responsibility</b>	Accounts payable
<b>Priority</b>	Medium
<b>Auditor Comments</b>	The risk is the Accounts Payable system and General Ledger will not be complete.
<b>Authority Response</b>	Although governed by the constraints of Oracle, reconciliation/ control sheets are now checked, maintained and filed following each upload. An AP senior supervisor reviews and authorises the reconciliation.

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May 2012



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**Audit Committee**

**31 May 2012**



**Compliance with International Auditing Standards**

**Report of the Manager of Internal Audit & Risk**

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**Corporate Director Resources, Don McLure**

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**Purpose of the Report**

1. The purpose of this report is to seek Members' approval to a draft response from the Chair of the Audit Committee relating to a letter sent from the Audit Commission regarding compliance with International Auditing Standards.

**Background**

2. As part of the 2011/12 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from 'those charged with governance' of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2011/12 accounts including the pension fund accounts.
3. A copy of the letter from the Audit Commission and a copy of the response provided by the Corporate Director Resources, in relation to a similar request, are attached for your assistance as Appendices 2 and 3.
4. The proposed draft response from the Audit Committee is attached at Appendix 4.

**Recommendation**

5. Members are requested to note the response provided by the Corporate Director Resources and to approve the response to be provided by the Audit Committee.

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**Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 0191 383 3537**

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17 May 2012  
p/reports/aw02-12

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**Appendix 1: Implications**

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**Finance**

No direct financial implications

**Risk**

None

**Staffing**

None

**Equality and Diversity / Public Sector Equality Duty**

None

**Accommodation**

None

**Crime and disorder**

None

**Human Rights**

None

**Consultation**

None

**Procurement**

None

**Disability Discrimination**

None

**Legal Implications**

None



**Our reference** DU08812A

13 January 2012

Eddie Bell  
Chair Audit Committee  
Durham County Council  
County Hall  
Durham  
DH1 5UE

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Dear Mr Bell

**Audit of Durham County Council's Financial Statements 2011/12 including the Pension Fund Accounts - Compliance with International Auditing Standards**

In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250, 501 and 570) we are required to obtain an understanding from 'those charged with governance' of the processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2011/12 accounts including the pension fund accounts.

**International Standard for Auditing (UK and Ireland) 240 - The auditor's responsibility to consider fraud in an audit of financial statements**

**Background**

- 1 Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee.
- 2 This includes fraud that could impact on the accuracy of the annual accounts.
- 3 The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

**What is 'fraud' in the context of the ISA?**

- 4 The ISA views fraud as either:
  - the intentional misappropriation of the Council's assets (cash, property, etc); or
  - the intentional manipulation or misstatement of the financial statements.

## What are we required to do?

- 5 We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:
- 1) How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes in relation to:
    - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
    - identifying and responding to risks of fraud in the organisation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
    - communicating to employees of views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the organisation's code of conduct); and
    - communicating to those charged with governance the processes for identifying and responding to fraud or error
  - 2) How does the Audit Committee oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control? Is the Audit Committee aware of any breaches of internal control during 2011/12?
  - 3) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?
  - 4) Has the Audit Committee any suspicion that fraud may be occurring within the organisation?
    - Has the Audit Committee identified any specific fraud risks within the organisation?
    - Does the Audit Committee have any concerns that there are areas within the organisation that are at risk of fraud?
    - Are there particular locations within the organisation where fraud is more likely to occur?
  - 5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively?
    - If not, where are the risk areas?
    - What other controls are in place to help prevent, deter or detect fraud?
  - 6) Is the Audit Committee satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?

- 7) From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation?
  - How are the risks relating to these posts identified, assessed and managed?
- 8) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?
  - How are the risks associated with fraud related to such relationships and transactions mitigated?
- 9) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?
  - Are there particular balances where fraud is more likely to occur?
  - Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
  - Could a false accounting entry escape detection? If so, how?
  - Are there any external fraud risk factors which are high risk of fraud?
- 10) Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?
  - Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

## **International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements**

### **Background**

6. Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Council is the Audit Committee.
7. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

### **What are we required to do?**

8. We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:
  - How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. For example:
    - Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations?
    - What arrangements are in place for the Committee to oversee this process?

- Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?
- Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with, and if so is it aware of what actions management is taking to address it?

### **International Standard for Auditing (UK and Ireland) 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements**

#### **Background**

9. This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity.
10. The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

#### **What are we required to do?**

11. We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA+501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:
  - Is the Audit Committee aware of any actual or potential litigation of claims that would affect the financial statements?

### **International Standard for Auditing (UK and Ireland) 570 – Consideration of the going concern assumption in an audit of financial statements**

#### **Background**

12. Financial statements are generally prepared on the basis of the going concern assumption. Under the going concern assumption, an audited body is ordinarily viewed as continuing in operation for the foreseeable future. Accordingly, assets and liabilities are recorded in financial statements on the basis that the audited body will be able to realise its assets and discharge its liabilities in the normal course of its operations.

#### **What are we required to do?**

13. If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA+570. We are therefore making the following request from the Audit Committee:
  - How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

- Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

A brief response, on behalf of management, before 30 April 2012 to the above issues would be much appreciated. If in the meantime you have any queries, please let me know.

Yours sincerely

Catherine Banks  
Audit Manager

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Audit Manager  
Audit Commission  
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Metro Centre  
GATESHEAD  
NE11 9NH

30<sup>th</sup> April 2012

Dear Catherine,

**Audit of Durham County Council's Financial Statements (including Pension Fund Accounts) - Compliance with International Auditing Standards**

With reference to your letter dated 12<sup>th</sup> January 2012 I would like to make the following comments:

**ISA + 240 - Management processes in place in relation to fraud**

1. ***We seek an understanding of management's assessment of the risk that the financial statements may be misstated due to fraud.***
  - a). ***Does management undertake its assessment of the risk of that the financial statements may be materially misstated due to fraud and error (including the nature extent and frequency of these assessments?)***

Management's assessment of the risk that the financial statements may be misstated due to fraud or error is informed by consideration of various sources of assurance on the adequacy of the control environment relating to key financial systems. Sources of assurance include front line service managers supervisory controls, corporate risk management arrangements and performance management arrangements. Internal Audit review key financial systems on an annual basis, using a risk based approach, to provide independent assurance that expected controls are effective in reducing the likelihood of material fraud or error. Internal audit will also consider financial risks as part of planned assurance reviews of key service activities agreed in annual audit plans. The risk based approach used by internal audit involves working with services managers to agree and assess key risks, key controls and other assurance sources using a Control Risk Assessment ( CRA ) methodology This enables audit resources to be targeted to high risk areas where there is little or no assurance. At the end of the audit the CRA is updated with details of actual controls in place which provides a basis for responsible officers to carry out Control Risk Self Assessments (CRSA).

Assurance is also provided by the external auditor and other external review agencies e.g HM Revenues and Customs. Any agreed actions to improve the control environment are regularly monitored to ensure they are implemented in a timely manner.

Ongoing consideration of the various sources of assurance allow for continuous assessment of the risk of material misstatement. Risks will also be assessed as part of the planning and preparation of annual internal audit plans..



***b) What is management's process for identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?***

Managers are responsible for the implementation of controls to reduce the likelihood and / or impact of fraud occurring in their service areas.

The risk of fraud and corruption is recognised as a strategic risk and monitored through the Corporate Risk Management process.

The Head of Internal Audit is responsible for the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and leads on a number of initiatives to help combat fraud through raising awareness of the risks, supported through a dedicated Counter Fraud Officer. Fraud and corruption risks will be considered in consultation with service managers as part of the CRA process outlined above.

The Council has a Benefits Fraud and Error Team that raises awareness of the risk of benefit fraud and investigates suspected cases.

Internal Audit assess the fraud risks to which the Council may be exposed on an annual basis as part of the annual audit planning process and make provision within annual audit plans for conducting a number of specific counter fraud reviews aimed to prevent and detect fraud in high risk areas. This annual assessment will consider risks identified externally such as those highlighted in the Audit Commission's publication "Protecting the Public Purse and the National Fraud Authority's, "Fighting Fraud Locally", the National Anti Fraud Network (NAFN) and various audit/counter fraud networking groups.

The Council's Counter Fraud Strategy is supported by a Fraud Response Plan that sets out the process to be followed if fraud is suspected.

All cases of suspected corporate fraud must be reported to the Head of Internal Audit, who will then agree, with the appropriate officers, how the matter will be investigated.

The Counter Fraud Officer keeps a register of all suspected cases of corporate fraud and monitors and reports upon counter fraud activities.

The Council has a zero tolerance approach to fraud and proven cases will be dealt with under the appropriate disciplinary procedures and, if considered appropriate, a referral to the Police will be made. Wherever possible sums lost will be recovered through whatever means are available to the Council.

The investigation and outcomes of all cases of corporate fraud are monitored and reported as part of Internal Audit's quarterly progress reporting to Corporate Directors. In addition a bi annual fraud report is prepared for consideration of the Corporate Management team summarising counter fraud initiatives, new and emerging risks, reported cases and outcomes.

Control weaknesses identified as a result of reported suspected cases will be reviewed in consultation with service managers to reduce the impact or likelihood of the risk of reoccurrence. Any recommendations made to improve the control environment will be monitored by Internal Audit

***c) What arrangements does management have in place to communicate to employees regarding its views on business practices and ethical behaviour (for example by updating, communicating and monitoring against the Council's Code of Conduct).***

The Employee Code of Conduct is part of the induction package for all new starters and is easily accessible on the Council's Website and intranet. It is reviewed annually and employees are regularly reminded of their responsibilities under the Code through various means of communication e.g Employee Updates. There is also a link to the Code of Conduct in the Counter Fraud Strategy that is also widely communicated to employees. Support is also provided for Schools and Governors in raising fraud awareness.

More counter fraud work is planned to help embed and maintain a strong counter fraud culture across the whole Council, including the development of online fraud awareness training for all managers and employees. This will include links to the Council's Code of Conduct.

***d) How does management communicate the processes for identifying and responding to fraud or error to the Audit committee?***

Bi-annual reports are made to the Audit Committee on counter fraud activity, reported and investigated cases and outcomes.

Any amendments required to the Council's Counter fraud Strategy, Fraud Response Plan, Anti Money Laundering Policy, and Confidential Reporting Code (Whistle Blowing Policy) are reported to the Audit Committee for approval.

New and emerging fraud risks will be brought to the Audit Committee's attention when annual audit plans are presented for approval and through quarterly Internal Audit Progress reports.

***2) Does management have knowledge of any actual, suspected or alleged fraud, either within the Council as a whole or within your department during the period 1/4/2011 to 31/3/2012? If so, what actions is management taking to address?***

Management is aware of a number of proven and potential frauds. The majority of cases relate to housing benefit that have either been disclosed through data matching exercises (Audit Commission and the Housing Benefit Service) or through its own fraud and error investigative procedures. Action taken in response to proven housing benefit fraud is in accordance with the Council's Housing Benefit Sanction Policy. This involves recovery action through court prosecution, or the imposing of administrative penalties or cautions, as considered most appropriate in accordance with the sanction policy.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Head of Internal Audit through bi- annual reports.

***3. Does management have any suspicion that fraud may be occurring within the organisation?***

Within any organisation of the size of Durham County Council there is the potential for fraud to be occurring. However, the policies, procedures and processes outlined above and the continual further development of raising fraud awareness seek to further embed a strong counter fraud culture and minimise the risk.

Specific fraud risks within the Council are identified through the internal audit fraud risk assessment process, based on the monitoring and investigation of reported cases consideration of the overall control environment operating within the Council and national fraud risk indicators.

Management is aware that the extent of change across the Council together with the current economic climate has increased the risk of fraud and corruption. All suspicions reported by management referred to Internal Audit are as captured in bi annual reports to CMT and Audit Committee.

**4. Is management satisfied that internal controls, including segregation of duties, exist and work effectively?**

Independent assurance on the effectiveness of the control environment is provided through the work of Internal Audit as reported through individual audit reports, quarterly progress reports and the Annual Audit Report. The latter is yet to be finalised for 2011/12 but will be considered by CMT and the Audit Committee shortly.

Corporate Directors also consider other assurance sources and the effectiveness of internal controls operating within their service groupings when providing assurance statements in support of the Council's Annual Governance Statement (AGS). This is currently being prepared and will be reported in CMT and Audit Committee in June.

**5. Is management satisfied that staff are encouraged to report their concerns about fraud, and the types of concerns they are expected to report?**

The Council has a Confidential Reporting Code (Whistle Blowing Policy) that is effectively communicated through staff induction and is easily accessible. Work continues to be undertaken as part of the "Combating fraud through awareness", campaign, reminding staff of their responsibilities to report any concerns, the types of concern they should report and how to do this. Information is available, internally through the intranet and also externally, for members of the public, through the internet, and details several methods of reporting suspected breaches.

**6. Is management aware of the posts which are considered to be high risk from a fraud and corruption perspective and what action has been taken to manage this risk?**

Discussions on the risk of fraud and corruption are held with senior management as part of the consultation process on the preparation of annual audit plans and managers reminded of their responsibilities for ensuring that adequate controls are implemented to manage any identified risks.

Fraud awareness training continues to be developed that is planned to be rolled out to all employees and further training will be targeted to those staff working in higher risk areas.

Internal Audit devise an annual counter fraud programme of work, agreed by Corporate Management Team and the Audit Committee as part of their annual audit plan, to provide independent assurance that internal controls are operating effectively in high risk areas.

Fidelity guarantee insurance is in place.

**7. Is management aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to such relationships and transactions**

The Council has an employee Code of Conduct in place which clearly communicates the responsibilities of staff and requires officers to complete declarations of interest where appropriate. It is management's responsibility to ensure compliance with this Code and to monitor the nature of any interests declared.

The Council has a member's Code of Conduct in place which clearly communicates the responsibilities of members, during meetings, with regard to declarations of interests. Procedures are in place for the recording, maintaining and monitoring of such declarations.

A register of interests of members and co-opted members of the council, as required under section 81(1) of the Local Government Act 2000, is maintained which details the declaration of financial and other interests.

All Members and the corporate management team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable to identify actual payments made and reviewed. A list showing all such transactions for 2011/12 is currently being compiled by strategic finance.

In addition, Internal Audit carries out periodic reviews of all employees and members declarations to help identify any potential undeclared relationships and or fraudulent transactions. The latest reviews relating to 2011/12 involved an examination of data matches identified through the 2010-11 NFI exercise as at October 2010 (Reports 80 and 81) and a review of the similar outputs from our own data matching exercise covering the period Oct 2010-Dec 2011. Testing is complete and draft reports detailing the findings are due to be issued shortly. Further work is planned to help identify any potential undeclared interests/related party transactions through known applicable web based search sites.

***8. Is management aware of any entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading?***

Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However internal controls and assurance on their effectiveness provides reasonable assurance that any such error would not be material.

I am not aware of specific entries that I believe are false or intentionally misleading.

***9. Are you aware of any organisational, or management pressure to meet financial or operating targets?***

I am not aware of any inappropriate organisational or management pressures being applied or incentives offered to anyone to meet financial or operating targets.

**ISA+250 - Management processes in place in relation to compliance with relevant laws and regulations**

***10. How does management gain assurance that all relevant laws and regulations have been complied with?***

The Council has a local Code of Corporate Governance developed in accordance with CIPFA/SOLACE guidance. This Code is part of the Council's Constitution and is communicated internally and externally. This is reviewed annually and corporate governance arrangements in place, including those relating to compliance with relevant laws and regulations are regularly assessed by senior officers. The AGS must be approved by the Corporate Management Team and the Audit Committee.

The Council's Monitoring Officer, the Head of Legal and Democratic Services, is generally responsible for ensuring that all laws and regulations impacting on County Services are disseminated to appropriate service managers and will

arrange to brief the Corporate Management Team and Cabinet as considered appropriate on legal issues. Service managers are responsible for ensuring that laws and regulations relevant to their service area are complied with and for ensuring that any legal implications are identified and considered when any reports requiring key decisions are presented to Cabinet.

The Council's Financial Procedure Rules, which are also part of the Council's Constitution, provide the framework for managing the Council's financial affairs. There is specific provision within these procedures for the Chief Financial Officer to report to full Council, and to the Council's external auditors, if the Council or one of its officers:

- Has made, or is about to make a decision which involves incurring expenditure which is unlawful
- Has taken or is about to take any unlawful action which has resulted in a loss or deficiency to the Council
- Is about to make an unlawful entry in the Council's accounts.

I am not aware of any such issue having being reported.

Arrangements have been put in place within ACE to prepare regular updates on new central government initiatives and consultation exercises which are circulated to senior managers as an early warning of potential new legislation and regulations.

Assurance that risks around compliance with laws and regulations are being effectively managed is provided through the Council's risk management processes.

Internal audit carry out periodic reviews of the control framework in place for ensuring that services keep abreast of any changes to legislation impacting on their operations and carry out compliance testing.

Other functions within the Council also provide assurance on compliance e.g Quality assurance audits within AWH and Health and Safety inspections.

Some external assurance is also provided through external inspection and review bodies.

***11. Are management aware of any instances where the Council has not complied with any laws or regulations during 2011/12?***

I am aware of a number of cases involving actual and potential litigation action against the Council, that if proven may indicate non compliance with legislation in a variety of subject areas. Records of all such cases are captured in a database maintained by Legal Services as and when cases are referred to them for advice.

**ISA+501 - Litigation and claims that would effect the financial statements**

***12. Are management aware of any actual or potential litigation or claims involving the Council which may result in a material misstatement of the financial statements?***

The value of individual potential claims are not currently held on the central data base, although services are advised of any potential financial implications and these will be supported by records on individual case files held within Legal Services. Collectively, potential values are not considered to be material although I am aware of some cases where a contingent liability and / or provision may be necessary. For example, I am aware that the Council is involved in defending a

class action relating to land charges fees. Provision has been made in reserves based upon possible restitution of fees, but the litigants are represented by lawyers who may be widening the scope of the litigation. The council is using LGA organised external lawyers to represent its interests.

We are currently reviewing our arrangements for monitoring and reporting of financial risks associated with all potential litigation claims to ensure any uninsured risks are appropriately reflected in the financial statements and any incidences of non compliance with legal requirements are identified and corrective action taken to avoid a reoccurrence. Any individual cases with a significant value are brought to the attention of the appropriate Service Director and Director of Resources.

Yours sincerely

D. McLure  
Corporate Director Resources

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Audit Manager  
Audit Commission  
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NE11 9NH

17<sup>th</sup> May 2012

Dear Catherine,

**Audit of Durham County Council's Financial Statements (including Pension Fund Accounts) - Compliance with International Auditing Standards**

I refer to your letter dated 13 January 2012 regarding the above.

The Committee have noted the response provided by Don McLure as the Section 151 Officer, in relation to the management arrangements in place for those areas covered by the International Auditing Standards you refer to, and would like to add the following comments from the Audit Committee's perspective.

**ISA + 240 - Management processes in place in relation to fraud**

***How does the Audit Committee exercise oversight of the management processes in place relating to fraud?***

The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and supporting Fraud Response Plan, prior to approval by Cabinet, and is therefore well aware of the management processes in place for identifying and responding to the risk of fraud. The Audit Committee also has responsibility for reviewing the Council's Anti Money Laundering and Whistle Blowing Policies and for monitoring their effectiveness.

The Audit Committee receives updates, twice a year, on Counter Fraud Activity and is aware of a number of actions being undertaken or planned to help embed a strong counter fraud culture.

The Committee is kept informed of the Audit Commission's National Fraud Initiative exercise and the outcomes. The Committee is also kept informed of key messages from other national initiatives and publications that highlight potential fraud risks that the Council could be exposed to e.g the Audit Commission's, "Protecting the Public Purse", and is therefore able to challenge how the risk of fraud and corruption is being managed within the authority and to seek assurance that management arrangements in place are effective.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that staff are encouraged to report their concerns about fraud.

The Audit Committee is aware that all suspected cases of corporate fraud must be reported to the Head of Internal Audit and are advised of all cases reported. Bi

annual fraud reports also advise the Committee of the number of cases handled by the Housing Benefit Fraud and Error Team.

The Committee approve annual internal plans and provide challenge to counter fraud audit work planned each year to ensure that adequate assurance is provided on high fraud risk areas.

The Committee receive independent assurance that internal controls exist and work effectively, or otherwise, from the work undertaken by internal and external audit. Any significant control weaknesses are brought to the Committee's attention and the Committee monitors progress made by management in implementing agreed recommendations to improve controls.

The Committee is aware that internal controls evaluated by internal and external audit will include those controls managers have put in place to mitigate the risk of fraud and corruption.

As the risk of fraud and corruption has been recognised as a Corporate Strategic Risk the Audit Committee is kept informed of how this risk is being managed as part of quarterly risk management update reports.

The Audit Committee maintains an oversight of management processes in place for assessing the risk that the financials statements may be materially misstated by considering all the sources of assurances it has available to it on the effectiveness of the control environment. These sources include Internal Audit, External Audit, management (throughout the Council), risk management, section 151 and monitoring officer and other external review bodies.

The Committee is responsible for considering any proposed amendments to the Council's Code of Local Governance prior to approval by Full Council, and maintains an understanding of key corporate policies and procedures that are an integral part of the Council's Internal Control Framework to help mitigate the risk of fraud e.g. officers and members code of conducts, financial procedure rules, contract procedure rules, officer scheme of delegations, complaints procedures and performance management arrangements.

The Committee is aware of the processes in place to identify related party transactions and the relevant reporting requirements for this.

The Committee is not aware of any specific entries made in the accounting records of the Council that it believes or suspect are false or intentionally misleading.

The Committee is not aware of any inappropriate organisational or management pressure to meet financial or operating targets.

### **ISA+250 - Management processes in place in relation to compliance with relevant laws and regulations**

#### ***How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?***

The Audit Committee is responsible for the annual review of the Council's Local Code of Corporate Governance and approving the Annual Governance Statement and is therefore aware of management arrangements in place for identifying and



responding to changes in laws and regulations and any significant governance issues arising as a result.

The Audit Committee gains independent assurance over the effectiveness of the arrangements in place through the work of Internal and External Audit and other external review bodies.

The Audit Committee receives regular updates on the management of strategic risks that include risks relating to non compliance with laws and regulations e.g. “serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO”.

**ISA+501 – Specific consideration of the potential for, and actual litigation and claims affecting the financial statements**

The Audit Committee note the current review of the monitoring and reporting of financial risks associated with potential litigation claims and will seek to gain assurance that revised processes are effective and any significant risks or control implications are brought to its attention.

**ISA+570 – Consideration of the going concern assumption in an audit of financial statements**

The Audit Committee has not as yet considered whether or not it is appropriate to adopt the going concern basis in preparing the financial statements of the Council and the Pension Fund but will seek assurance from the Corporate Director Resources on this issue.

Yours sincerely

Edward Bell  
Chair of Durham County Council Audit Committee

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